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U.S. Foreign Assistance in Asia, He...

# U.S. FOREIGN ASSISTANCE IN ASIA

## HEARING

BEFORE THE

SUBCOMMITTEE ON
ASIA AND THE PACIFIC

COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JULY 23, 1996

Printed for the use of the Committee on International Relations

DEPOSITORY

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# U.S. FOREIGN ASSISTANCE IN ASIA

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**TUESDAY, JULY 23, 1996**

House of Representatives,
Committee on International Relations,
Subcommittee on Asia and the Pacific,
*Washington, DC.*

The subcommittee met, pursuant to call at 2:02 p.m. in room 2255, Rayburn House Office Building, Hon. Doug Bereuter (chairman of the subcommittee) presiding.

Mr. Bereuter. Perhaps no subject attracts a greater array of opinion in the U.S. public than U.S. foreign assistance policy. This is controversial and acrimonious. Serious international policy and ideological differences over how and whether the Federal Government should assist developing nations continue to produce intense, often heated, debates inside and outside this institution.

For example, last year this subject nearly produced fist-to-cuffs here on the committee, and last week it prompted a now highly publicized verbal fight between an AID employee and the head of the American Foreign Service Association.

Unfortunately, however, this debate has not only been continued but it has also been shallow in my judgment. So far this debate has only asked two relevant questions: How much should we spend on foreign assistance? And, who is going to get our foreign assistance funds?

Clearly that is wrong, short sighted, and partially limited. Today's hearing marks an attempt to go beyond those two perfunctory questions.

First of all, we should agree that we no longer have $20,000,000,000 to spend on U.S. foreign assistance programs like we did in the 1980's, or at least that is the tentative and prolonged judgment that the Congress seems to be expressing by their actions.

Many Americans believe we spend 58 percent of our Federal budget on foreign aid. A recent poll asked Americans what they prefer to spend. They said, let's bring it down to somewhere about 5 to 8 percent. In actuality, 1 percent is the total figure.

Second, at least in the short-term, the U.S. Agency for International Development continues to play a primary role in the administration of our foreign aid programs.

While legitimate discussion continues on whether more of our foreign assistance programs should be privatized, this debate can take place at the same time we ask other important questions.

In the Asia-Pacific region, there are many serious foreign assistance questions that should be asked, it seems to me.

For example, where should the United States continue to have a field presence? Its claim to resources? What AID missions should be closed?

Moreover, should U.S. foreign assistance to the region attempt to serve as a catalyst to tap the unprecedented private sector capital flows or should our resources be spent on basic human needs where the greatest number of poor people live in the world?

Should U.S. foreign assistance be spent in countries like China who have serious human rights and other concerns? And, how should we attempt to stem the massive environmental degradation that will occur in a region that is racing to catch up with the industrialized world?

These are just a few of the questions. I think my colleagues will have many more that they could offer.

To answer those questions, we need to have our first witness, the Honorable Margaret Carpenter, Assistant Administrator for Asia and the Near East for the U.S. Agency of International Development.

Ms. Carpenter's broad experience working in both the private sector, non-profit organizations like the Asia Foundation and many different capacities for the U.S. Government gives her a valuable, diverse perspective on U.S. foreign assistance efforts.

On our second panel of experts from the private sector, non-governmental organizations, we are delighted to have Mrs. Henrietta Holsman Fore, Senior Associate for the Center for Strategic and International Studies.

Mrs. Fore was the assistant administrator for both the Bureau for Private Enterprise and the Bureau for Asia. She has recently authorized an article published in the Washington Quarterly entitled "Lean Development and the Privatization of U.S. Foreign Assistance".

Dr. Donald A. Deieso, who is testifying on behalf of the American Consulting Engineers Council, is president and chief executive officer of Metcalf & Eddy, Incorporated (the oldest environmental engineering and service firm in the United States).

In addition to his extensive private sector experience, the gentleman served as the assistant commissioner of the New Jersey Department of Environmental Protection and for the U.S. Environmental Protection Agency.

We are also pleased to have Ms. Sarah Newhall, Deputy Director for Programs at Pact (a non-profit organization that seeks to foster and accelerate the gains and influences of grassroots development organizations around the world).

Ms. Newhall has years in the field in Cambodia as the country representative for the Pact program, a $17,000,000 5-year USAID-funded development program.

Ladies and gentlemen, we look forward to all of your testimony. May I ask that you keep your remarks to no longer than 5 to 10 minutes. Ms. Carpenter, we will give you a little more time than that.

Your entire written statement will be made a part of the record, but before you begin, I would like to call upon the ranking member, the gentleman from California, Mr. Berman, for any remarks he might like to have in a preliminary sense.

Mr. BERMAN. Well, thank you very much, Mr. Chairman. I would like my remarks in full to be put in the record.

Mr. BEREUTER. Without objection.

[The prepared statement of Mr. Berman appears in the appendix.]

Mr. BERMAN. I guess I want to challenge or perhaps argue about an assumption of some of your opening comments.

I think you raise very important questions about how foreign aid should be directed, but as we go through that process, I think we will still end up with a conclusion that our present level of resources from America's point of view is still inadequately low.

I think if there is a demonstration of will by the executive branch to increase the amount of the available pie that goes for programs in the 150 account and in the foreign assistance budget and an effective bipartisan effort to put together a consensus to do that in the Congress, that we do not have to limit ourselves to the level of resources we have provided in the last couple of years for this.

I am hoping that Ms. Carpenter will help create a foundation for why in this particular region of the world not only humanitarian interests, which are so compelling, but vital economic and security interests that we have are affected by our assistance programs in this dynamic area that still faces many serious problems.

That as we go through this testimony and process we can initiate a process of thinking again about whether this 1 percent of our Federal budget that we put into foreign assistance is in fact the right level, because I think there are relatively small absolute amounts of increases I think can produce many benefits.

So that is a process that is going to play out for the next 6 months with the new Congress. I am not suggesting that there is a lot of leeway in terms of this coming fiscal year, but as the Department prepares its fiscal year 1998 budget and submits it to OMB and to the President, I hope they take what might look now as an unrealistic high shot, both in terms of reform and in terms of dollar amount and persuade the President that this is something to get behind and spend capital on. Thank you.

Mr. BEREUTER. I thank the gentleman.

As a matter of fact, the gentleman would be incorrect if he believes that I disagree with him, and implicit in my remarks was not an indication that I support the current level of resources we put in.

I myself think it is inadequate, and I said, in fact, it is unlikely, based upon decisions that have been made in the Congress recently, that we are likely to return to the era when we had a $20,000,000,000 foreign assistance program. We are far from it today. So, I agree with the gentleman.

Mr. BERMAN. I watched the President this past year when a majority in both House and Congress wanted to cut certain programs that he thought were vital to the United States, dig in his feet and fight and ended up with a significantly higher amount of money than one might have thought any particular time.

I am just sort of taking this chance to pass on to the Administration that I think as they prepare the fiscal year 1998 budget, they should seek to envelope the President into that strategy on this

particular issue and then both of our feelings can be more effectively realized in the next appropriations process.

Mr. BEREUTER. I thank the gentleman.

I think it will take leadership on the part of the President, whoever the President is, education, and real reform in some of the existing programs.

Are there other members who would like to make preliminary comments? The gentleman from California, Mr. Rohrabacher.

Mr. ROHRABACHER. Very short, just to say that I disagree with what was just said from both parties.

Mr. BERMAN. Hope springs eternal.

Mr. BEREUTER. I hope the gentleman is not disagreeing on the need for reform, which is a part of my statement.

Any other members who would like to make a comment?

I see no other requests for time. I look forward now, as the subcommittee does, to hearing from you, Ms. Carpenter. Your entire statement as written will be made a part of the record, and you may proceed as you wish.

## STATEMENT OF HON. MARGARET CARPENTER, ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Ms. CARPENTER. Thank you very much, Mr. Chairman and members of the subcommittee.

It is a pleasure to be here to discuss U.S. foreign assistance programs in Asia managed by U.S. Agency for International Development.

I will try to answer the questions that you posed, Mr. Chairman, although I suspect that some of them will have to remain for the question and answer period, but I just want to start by saying that I appreciate the supportive remarks of both you, Mr. Chairman, and Mr. Berman.

Asia is an extremely important part of the world for U.S. foreign policy interests and U.S. commercial interests, and I think we need to look very, very closely at resources that are available in this area, because of the very strong link between foreign assistance and our interests in the region.

I am particularly glad to be here today because I have just returned from a 3-week trip to Asia and I return with very vivid memories of the dynamic change in this region and the movement toward both political and economic reform that I saw.

The first part of my trip was with the administrator of USAID, Brian Atwood. He and I first had consultations with the Japanese on joint U.S.-Japan Common Agenda for Development and we then traveled together to Indonesia and the Philippines.

I went on, by myself, to Vietnam and Cambodia and finished up the trip with another few days in Tokyo at the World Bank Consultative Group meeting on Cambodia. It was a donor coordination meeting that takes place once a year.

In this period, I saw remarkable contrasts in Asia. Obviously I have been to other parts of Asia as well, but I think this trip really evoked for me the sense that Asia is on the move, in the direction of both political and economic reform.

What are some of the signs of this? First, we all know that Asia is the home of some of the highest birth rates in the world. Birth rates are dropping even in countries that are just beginning transitions, Vietnam and Cambodia, for instance.

That is not to say that these countries have solved their problems by any means, but there is a dynamic in this part of the world that really is quite striking.

Along with this economic growth have come expanding opportunities for U.S. trade and investment in a broad range of areas. What struck me in this trip was the opportunity for U.S. investment in infrastructure development throughout Asia.

The needs for infrastructure in Asia over the next few years are absolutely astronomical. U.S. companies are finding a niche in participating in the development of power plants, roads, telecommunications, across the board.

This is an area where public sector money is not adequate to needs. So, it is a great opportunity for the private sector, and for U.S. investment in particular.

In addition, I saw strong signs of political change. During the time that I was there, the elections in Mongolia took place, confirming the very strong democratic transition in that country.

In the past year there have also been successful democratic elections in Nepal, India, and Bangladesh—at least the second set of elections in Bangladesh were fair.

Throughout most of Asia we see significant improvements in literacy rates, child and maternal health, fertility rates and other indicators of the fact that these countries are beginning to get their own development needs in hand. Again, that is not to say the problems are solved, however.

Finally, I was really struck by signs that there is a growing awareness that we need to manage natural resources for sustaining their yield, to address pollution, to protect diversity. All of these areas are also creating new opportunities for U.S. investment, particularly in sharing our best practices in environmental technology.

Given all these indications of success in Asia, one might ask, as many people do, why should USAID have any programs in Asia? It seems to be a booming area, and many people are saying what Asia needs is trade, not aid.

Well, I believe strongly that aid is still a precondition to full trade in many countries in Asia, and that our very assistance with dwindling resources is a key to those later opportunities for U.S. companies in the area.

Our continued involvement in targeted ways in certain countries is important in order to be able to consolidate the gains that we have made to date, to push for new openings for U.S. companies, and to build good will in the foreign countries that we care about.

U.S. foreign assistance is absolutely crucial to the ability of other U.S. Government agencies to do what they do best, where it complements OPIC and TDA assistance.

Many countries still have enormous barriers to trade and investment; we are able to help address those issues to level the playing field.

In order to proceed along these lines, we must continue also to address some of the underlying problems that affect much of Asia.

Despite the fact that there is growing economic growth, there is also very widespread poverty and rapid population growth, both of which will act as a tremendous brake on sustaining growth in the future.

There are more poor people in India than in all of sub-Saharan Africa. The existing population growth rates, even though there has been quite a decline in recent years, will lead to doubling of the population of Asia in a very short period of time, and there just are not the services to deal with that growing population.

Child mortality, persistent malnutrition, increasing HIV/AIDS infections, other emerging and reemerging diseases will all sap the strength of future work forces and undermine the possibility of economic growth, thus limiting opportunities for U.S. companies.

The barriers that remain to foreign trade and investment in many countries in Asia include the need for policy, regulatory, and legal reform. In many countries there really are not adequate mechanisms for solving commercial disputes.

While the need for infrastructure is great throughout Asia, public sector funds, as I mentioned before, are just inadequate to the kinds of changes that need to go forward. Changes are not only important for maintaining and improving the quality of life in Asia, but to continue to attract foreign investment and trade.

Some of the things that are absolutely crucial in this respect are pushing forward privatization and making build-own-operate and build-own-transfer arrangements more available to attract private sector investment. All of these things require much more attention to the general enabling environment for business. The private sector itself is not going to be able to address some of these underlying problems.

Finally, future economic growth also depends on good governments and popular support for the government and its policies, expressed through democratic processes and peaceful transitions of leadership.

Now, equally important are transparency, accountability and elimination of corruption in the ability of these governments to maintain the support of their people and to attract continued trade and investment. Unfortunately throughout Asia the political transitions are lagging far behind the economic transitions.

The last area of real concern is that in some countries, like Sri Lanka and Cambodia, there are still persistent problems with civil war, which again divert needed resources for development.

Overall, I came back from my trip even more convinced than ever that there is still a very strong rationale for foreign assistance in Asia, even in an era of dwindling resources.

In the last 3 years USAID has taken important steps to try to become much more efficient, to be able to do more with less.

We have done this through re-engineering, minimizing the size of our presence overseas where our costs are higher, looking at new ways of delivering assistance, leveraging our resources with other donors, and bringing in the private sector. But, to be perfectly honest, with the cuts in recent years, we have now gotten to a point where we just cannot do more with less.

We have to recognize that there are real limits on what we can accomplish. I think it is very important in looking at the size of the

foreign assistance program in Asia to remember that this is a two-way street—what we put in Asia now in foreign assistance is an investment not only in the future of Asia, but in the future of the United States. The small amount of assistance that we invest in Asia brings back many times the returns in terms of trade and jobs in the United States.

These are not the only reasons that we should care about what is happening in Asia. As I mentioned at the very outset, obviously Asia is an extremely important area to the United States in terms of its strategic interests.

Because of Asia's very size, the size of its population and its land mass, it is a major source of global problems that affect us in the United States as well as people throughout Asia.

So, I feel very strongly that we need to strengthen our assistance programs in Asia. I am here to defend the President's budget request for fiscal year 1997. The total amount of money requested in Development Assistance Funds and Economic Support Funds for Asia is approximately $338,000,000.

This is a very small amount of money for a lot of assistance that will bring returns for many years to come.

I really appreciate the support that this committee has given us in the past, and I urge you all to continue to be supportive, because I think it is extremely important that we be able to continue what we have launched in Asia, even if we do it in a much more limited and targeted way.

Thank you very much. I would be happy to answer your questions.

[The prepared statement of Ms. Carpenter appears in the appendix.]

Mr. BEREUTER. Thank you very much, Ms. Carpenter, for your testimony.

While I am speaking here, would members of the staff see if the 5-minute clock can be started and is working?

Ms. Carpenter, I appreciate the last statement that you just made, that you are here to be able to defend the Administration's budget requests. I understand that is part of your responsibilities.

I would say to my colleagues, I would hope that we are not going to limit ourselves to that kind of an immediate set of questions. I hope we are going to look at this problem in the larger context today. I do not mean this to be a simple annual review of budget requests.

Ms. Carpenter, AID has announced plans to undertake a substantial downsizing in terms of both country presence and staff size, closing 13 overseas missions in the next few years, implementing a 10-percent reduction force beginning in early fiscal year 1997.

To what extent will those cuts or mission closings be focused upon the Asia-Pacific region?

Ms. CARPENTER. Let me put it in a broader context. We have already taken big cuts in our resources for Asia. We have lost 65 percent of our resources for Asia since 1990.

By the end of this fiscal year we will have closed six missions in Asia. The staff reductions that you referred to are already taking place. They will be complete by the end of this fiscal year.

We are still in the process of talking about the future of our programs in Asia through the year 2000. Let me just say that virtually every mission in the world will undergo changes and staff reductions in order to try to reduce the cost of operating overseas. We are trying hard, as I said, to make sure that we are able to continue providing essential assistance either through more limited staff, or in the case of some countries where we will actually have to close our missions, by continuing support through NGO's and contractors with monitoring from afar.

Mr. BEREUTER. I appreciate the information you just conveyed. That is important, but I would ask you, do the 13 additional missions to be closed include any, to your knowledge, in the Asia-Pacific region at this point, or have they been pinpointed and made available to consideration?

Ms. CARPENTER. We are still conducting consultations with the State Department, but we have been asked to close two additional missions this fiscal year.

One is our Regional Support Mission in Bangkok, which was established in order to support some of the smaller missions in that region.

This was a very precipitous decision. We are able to shift the responsibilities for some of that support to our mission in Manila.

We are also planning to close our mission in Mongolia, unfortunately, by September. We plan to continue activities in Mongolia, after the closure of the mission, through the Asia Foundation and some other organizations that are currently operating in Mongolia.

Mr. BEREUTER. I was coming to a question of Mongolia, but since you came up with that comment, will there be other U.S. Government foreign assistance continuing to flow into Mongolia other than AID, since you are closing a mission there? And, do you expect to be able to provide some assistance from AID regardless of whether or not you are going to close the mission in Mongolia?

Ms. CARPENTER. We are definitely able to continue providing some assistance. Of course there is a limit to what we can manage with accountability without having American staff in country, but we are convinced that what we are planning to continue with monitoring from Manila will meet the needs of the new government that just came to power.

I cannot give you any specific information about other agencies. The Defense Department has in the past provided some assistance in kind. I will try to find out for you what, if anything, other agencies are planning to provide to Mongolia.

[The information follows:]

While our USAID representative will leave Mongolia this year, our office will remain open, staffed by Foreign Service National Employees, and will continue to program funds to support the new government. Focus will be on democracy activities, such as training newly elected parliamentarians in the principles and practices of representative governance, and the workings of a free market. USAID will also continue to fund a U.S. economic policy advisor in the office of the Prime Minister, and provide support to the energy sector.

In the past 2 years, USAID's support to Mongolia totalled more than $14,000,000. This included approximately $10,000,000 for emergency energy assistance and a $1,000,000 grant to UNICEF to provide critically needed immunizations to Mongolian children. Other U.S. Government agencies provided assistance as follows: $1,543,000 from the Department of Defense for engineering construction for schools, medical equipment, and clothing, and a total of 100,000 Humanitarian Daily Ra-

tions for the Mongolian Office of Civil Defense; and $2,500,000 from the Department of Agriculture for food assistance. In collaboration with USAID, the U.S. Forest Service will provide communication equipment and training for the Mongolian Office of Civil Defense.

Mr. BEREUTER. Given the rather remarkable moves that Mongolia has made with very small resources, moves toward democracy and economic reform, it is a bit surprising that we would close a mission there.

I will close with a final question at this stage, and that is to mention that 3 or 4 years ago it was determined that the Japanese budget agency and our OMB had one point in common when they considered the possibility of each year considering the coordination of our foreign assistance efforts.

That led, I believe, to something called the common agenda initiative, which I understand is primarily focused on environmental degradation, health services and over-population.

The first initiative was to begin to coordinate our efforts in the Philippines, and I think maybe it has been broadened to Indonesia since that point.

Are you prepared to give us a brief summary of how that joint initiative is going, since we were characterized as being staff-heavy as compared to the rest of the world and the Japanese were staff-light but were devoting many more financial resources (as we have a chart indicating that) to foreign assistance in the region and it was thought there could be some mutually beneficial cooperative effort between the government of Japan and the government of the United States.

Ms. CARPENTER. Actually, there has been a lot of progress in the U.S.-Japan Common Agenda. It has been broadened to include U.S.-Japanese cooperation in the entire world and to include a whole range of new activities, including food security, civil society and democracy.

There are about 20 different baskets of activities that fall under the Common Agenda, which were discussed during the summit in April.

There was also a plenary of the Common Agenda subsequently to review where we are. It has taken a while to get a lot of activities up and running, but it has taken some time also to figure out where the United States and Japan can complement each other's activities.

We are not necessarily co-financing a single activity, but trying to bring our activities in line with each other. We are indeed supporting about 20 different projects in Asia that involve cooperation with the Japanese.

The first activities off the ground have been primarily in the area of health, such as polio, family planning, and HIV/AIDS, but there are also some other areas where we have collaborated, such as support for nongovernmental organizations, and we have to broaden that in the future.

As you mentioned, the difference is that we have had staff presence on the ground and a lot of technical expertise, whereas the Japanese have been light on staff in the field and have had more financial resources than we have had recently.

We have been working with the Japanese to identify areas of collaboration. We have been sending people on design teams and assessment teams, for instance, to help them figure out what they feel comfortable funding in these areas, which are mostly new to them. So, our efforts will leverage a lot of Japanese resources over the next few years.

Mr. BEREUTER. Thank you very much, Ms. Carpenter.

The gentleman from California, Mr. Berman. We will give you more time since the chairman had more time.

Mr. BERMAN. No. Let me just pick a couple of issues out and ask about them. You just came back from a meeting in Tokyo that discussed aid to Cambodia.

Ms. CARPENTER. Yes.

Mr. BERMAN. Given the reports of that government's corruption, its involvement in illegal logging, the assassination of political opponents, what transpired during this meeting?

Were these issues raised by the other donors? Have there been steps taken to exert pressure on the Hun Sin Government and what are the status of efforts to open a representative office of the World Bank in Phnom Penh?

Ms. CARPENTER. I think those are all very good questions. Yes, indeed, the donors were very outspoken about what they perceived to be problems in Cambodia.

The purpose of these meetings is to review past performance and future plans and to look at how the donors can collaborate to try to move countries in the right direction.

In the case of Cambodia, there was a lot of concern expressed about the logging problem, about its effects on the environment in Cambodia, and the fact that there are revenues that should be coming into the Cambodian treasury that are going off either into Khmer Rouge coffers or to other people through corruption.

Fortunately the World Bank, the FAO and the UNDP have just concluded a study of the logging problem and have proposed some solutions.

The Cambodian Government—the two co-Prime Ministers—had agreed that Cambodia would implement those decisions. The question, of course, is whether the proof will be in the pudding. There are some problems that remain to be sorted out. A lot of the logs are in Khmer Rouge territory and have to be removed from the area.

In the future, Cambodia really needs to look at sustaining its timber resources. That is clearly one of its major resources, and it could indeed bring some revenue to the treasury, which is much needed, if it is done in a way that protects the future of the forests.

There was a lot of concern about lack of transparency and how decisions were made in the government. There was concern expressed about human rights. It was a pretty full range of issues.

The Japanese had organized a special meeting so that difficult issues would be dealt with in informal session with the two co-Prime Ministers.

In fact, virtually every donor mentioned a lot of concerns during the course of the consultative meeting. We believe that there is real need to address these issues, but they will take a lot of time.

That country is facing severe challenges. The government does not have the resources to do what it needs to do, but I think the donors are pretty clear about what the priorities should be in coming years.

Mr. BERMAN. Turn to South Asia for a second. One of five people in the world live in that region. We have twice as much poverty in South Asia as there now is in sub-Saharan Africa.

At current rates of economic growth, India, I am told, would take 48 years to get to the same level as Thailand is today.

Stepping out of your role as defender of the Administration's budget and just speaking from your own experience and putting aside the political constraints, what programs would you now fund in this particular region that are not now being funded if you could have your way?

Ms. CARPENTER. Well, I think we are indeed involved in the priority areas. The question is, do we have adequate resources to make the kind of difference that would accelerate the period that you were talking about of seeing India, for instance, arrive at the point where Thailand is today?

I think we have seen a great commitment on the part of the Indian Government in the last few years to move ahead with economic reform. All the signs from the new government that just came into power are very positive. For instance, they provided their new budget yesterday, and people are cautiously optimistic about their commitment to pursue the reform effort.

There are a lot of areas where they still need help in figuring out how to implement reforms. For instance, we provide the technical assistance to generate capital for infrastructure development and to review the proposals received from private companies that are interested in financing power plants, telecommunications, et cetera.

We have had to cut back on such technical assistance because of budget cuts, but we have seen the benefits already in the steps that the Indian Government has taken to date in reform.

I think the key thing for the government is to be able to move forward with reforms as quickly as possible. We are now limited to supporting demonstration projects in other areas that ultimately affect economic growth.

For instance, in population right now we are targeting the state of Uttar Pradesh, which has one of the worst set of indicators of all of India. It would be nice if we could do more than that.

We feel that there is value in what we are doing as a demonstration, but it is not in itself going to solve the population problem in India obviously. We could say the same thing about AIDS and nutrition and various other areas.

We are trying to come up with models that demonstrate a more effective way of delivering assistance and, in particular, bringing in private sector involvement rather than having people relying solely on the government.

I think there are areas of environmental protection where we are not able to be involved as much as we would like as well. Fortunately, some other donors are also involved in supporting environmental projects, like the World Bank and the ADB.

It is not as if these problems are completely solved. But I think we have developed some important models. What distinguishes us

from other donors is the quality of our technical assistance, and it is not necessarily very costly.

But the banks, for instance, are very dependent on the technical assistance that we provide to help create the environment for the large-scale financing through the loans that the banks provide.

So I think it is a combination of our activities plus what other donors and the banks can provide.

Mr. BEREUTER. Thank you.

The gentleman from California, Mr. Kim.

Mr. KIM. Thank you.

I have a few questions, Ms. Carpenter. Can I ask you all of them at once and have you answer one-by-one? The first question I have is, do you have a graph by the way?

Ms. CARPENTER. Do I have?

Mr. KIM. Yes. This chart here.

Ms. CARPENTER. No.

Mr. KIM. I will show you. Looking at this chart, Eastern Europe has a level about three times more than Asia in terms of funding. Does that mean that Eastern Europe has three times more starving people than Asia?

Ms. CARPENTER. Has what?

Mr. KIM. Does that mean the Eastern European people are starving three times more than Asia or, let me put it this way what kinds of things determine the 21 percent reduction in funding level in Asia?

Let me ask my next question. What criteria do you use to decide this kind of unequal funding level? You said Asia is so poor. Why then do you reduce it by 21 percent?

My second question is from the second graph, which shows levels of funding, you can see the level is declining each year. Last 3 years. But for there it is sharply increased.

Now, I understand that Agency decided to provide an additional $21,000,000 to the Philippines, which is about a 44 percent increase in funding. In my opinion, the Philippines is more prosperous than Bangladesh.

I want to know who makes the decision as to which country gets how much, which country gets more than previous years and is this subjective or do you have some kind of criteria?

My third question is, looking at this final chart, which is most interesting, which shows the funding comparison between the United States and Japan. Now, all the countries are about the same with Japan and the USA, with the exception of Indonesia.

Our funding level is about 3,000 percent lower than Japan's. Japan is contributing 3,000 percent more. I am curious, is there something that they know that we do not know?

Is there some relevant policy? Everywhere else gets about the same donation. Are we missing something here? I would like to find out why there is such a huge discrepancy in funding policy.

Ms. CARPENTER. I would like to know that, too. That troubles me as well.

Let me take your first question, which was comparing Asia with other parts of the world in terms of AID funding. I do not get involved in the allocation overall of AID's resources.

I am given a total for Asia. However, we do have opportunities to make a case for our region and we do that every summer as we begin that budget process.

I think that Asia has probably suffered from the perception that, because of the high growth rates, assistance is not needed anymore in Asia.

As I have tried to indicate, I do not agree with that. I think there is every reason in the world to value our investment in Asia, and I have tried very hard to demonstrate what the impact is.

I think a dollar in Asia goes further than in a lot of other regions of the world. In fact, what I manage is the total that I am given for the region.

Let me tell you what the criteria are for the region. We have worked out a methodology which involves looking at a number of factors: foreign policy considerations in each country; past performance, what we have been able to achieve in that country, whether we have a government that is willing to work with us on issues that we consider important, and whether the areas where we think we can make a difference fit with both my Bureau's priorities and the Agency's priorities.

We have used this methodology rigorously in the last few years as our funding has dwindled. We have ranked each activity against those of similar activities in other countries—for instance, all of the health activities across the board.

So, we have a sense of where we are really able to make a difference and then where we want to focus our scarce dollars if we have no additional funds, or where we might need to cut if we do not have enough to go around.

It is a very painful process, I can assure you, but we are looking across sectors and we are looking at results and our ability to produce results as much as foreign policy considerations.

Finally in comparison with Japan——

Mr. KIM. I am sorry. I would like to know who makes the decision. You said judging criteria is a very painful process.

Ms. CARPENTER. Yes.

Mr. KIM. Who makes the decision anyway? Who is in charge? Is there some kind of committee?

Ms. CARPENTER. I am responsible for managing the budget that I am assigned for Asia, and trying to determine where to put our scarce dollars within this region. We also manage the Middle East as well.

Mr. KIM. You mentioned you are in charge of funding.

Ms. CARPENTER. There is a process of allocating resources among regions. I make a case for more assistance for Asia for the areas in which we really think we can use that money well.

A part of our budget process is to demonstrate the reasons to support our request level and to try to get additional funds from the Agency's scarce resources.

Part of the problem is that virtually all of our budget is now earmarked for specific kinds of activities, and so we have to look at the allocation of money for environmental activities, for health and child survival.

The money that is least available is for economic growth and for democracy and governance, and those are two categories that we could frankly use a lot of in our region.

So, we have to make a case for why we should be given more money in that category. The total amount of money we are allocated is already earmarked for the kinds of activities that those funds can support.

It is a very complicated process, but we try to do it on the basis of results, and potential results in the future.

Mr. KIM. A further question, ma'am.

Ms. CARPENTER. On Japan?

Mr. KIM. Yes.

Ms. CARPENTER. Japan has become the single largest bilateral donor, and Japan puts most of its money in Asia, which is perfectly understandable. Indonesia is the single largest recipient of aid from Japan.

Japan's approach to foreign assistance is quite different from ours. Japan does not emphasize technical assistance, although it does provide some technical assistance.

Japanese assistance is primarily provided in the form of loans rather than grants, and it is very often for financing for large-scale infrastructure projects or the purchase of equipment.

So Japan has a different approach toward foreign assistance. It is also quite staggering to see the contrast between the levels of our assistance.

Mr. BEREUTER. Thank you, Mr. Kim.

Mr. KIM. Thank you, Mr. Chairman.

Mr. BEREUTER. Good questions.

Gentleman from American Samoa.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Just to follow up on a couple of the questions that Mr. Kim has raised earlier. Ms. Carpenter, I have been on this committee for 8 years now and forever more I get a little more confused in terms of how exactly our policies come about, how we establish our foreign aid program.

For political reasons. For humanitarian reasons. For strategic reasons. Also for economic or trade interests. I guess we will never be able to resolve exactly what reasons or maybe a combination of all these four basic reasons why we provide foreign aid.

Correct me if I am wrong, but is not the Japanese foreign aid program in excess of about $100,000,000,000 now a year?

Ms. CARPENTER. I am sorry, I do not have those figures. I can get them for you.

Mr. FALEOMAVAEGA. Can you provide that for the record? The reason for raising this issue is——

Ms. CARPENTER. I do not think it is possible that it is $100,000,000,000, but I will get you the figures.

[The information follows:]

Total Japanese Official Development Assistance (ODA) in FY 1995 was approximately $14.5 billion. This represents an increase of U.S. $1.3 billion over the 1994 level. Indonesia ia a major recipient of Japanese assistance, which on a net basis (disbursements minus repayments) totalled $886.2 million to Indonesia in 1994. This is expected to rise to $892.42 million in 1995. The actual ranking of the United States vis-a-vis other donors to Indonesia varies from year to year, but in general has averaged from 6th to 8th. However, since the U.S.'s contribution is provided

largely in the form of technical assistance, which is highly valued by the Indonesians, our impact is considerably higher than our program level.

Mr. FALEOMAVAEGA. Well, to Indonesia alone, if the record is correct, the Japanese aid is $1.1 billion and then an additional $818,000,000 in soft loans just to Indonesia alone.

We are the sixth. Way below the barrel. Germany, $279,000,000. France, $114,000,000. Quite obvious that the Japanese have a very strong economic interest in Indonesia and that is the reason why they make these investments.

So would you agree that the reason why we are the sixth largest donor is because we do not have that much economic interest in Indonesia?

Ms. CARPENTER. I think we are the seventh largest donor, but our Indonesian program is still one of the largest in Asia.

Mr. FALEOMAVAEGA. I think in particular what Mr. Kim was trying to pursue and I would like to get a little better clarification, for example, AID gives $20,000,000 to the HIV program in Indonesia, another $18,000,000 to revise their commercial code.

Who makes the decision in saying that this is how much money goes to each of these individual programs? I think this is what the gentleman is trying——

Ms. CARPENTER. It is——

Mr. FALEOMAVAEGA. Is it a committee in the State Department that makes the final decision?

Ms. CARPENTER. I manage the process for Asia and the Middle East. I obviously rely on input from each of my missions.

We ask each mission to submit a budget every year, which includes proposals for new activities as well as measuring the results of older activities.

We put all of this together and analyze it across the board to try to see where we will allocate our resources. Unfortunately in recent years it has been a question of how do we stretch the resources we get to cover all of the good activities.

We are not beginning a lot of new activities anymore and we have to measure the tradeoffs. We have to accept the fact that a lot of our funding is already earmarked for specific kinds of activities.

So, we do not have a lot of discretion when it comes to funding economic growth and democracy programs, for instance, because those are not protected by——

Mr. FALEOMAVAEGA. I am still not clear of this, Ms. Carpenter. When you say earmarking, is this a 2-year planning process?

Ms. CARPENTER. Congress——

Mr. FALEOMAVAEGA. When you say specifically $20,000,000 goes to the HIV program in Indonesia or is this each year there is a screening committee? Who makes the final decision?

Ms. CARPENTER. A lot of the earmarks come out of congressional action that affect the entire budget. There are a lot of directives that come out of the conferences as well.

We are exhorted to spend our money in various ways, for instance on child survival. So, we have to look for opportunities to support child survival across——

Mr. FALEOMAVAEGA. How much is the total? I am a little confused here. $12.9 billion in foreign operations. That is only part of it.

Ms. CARPENTER. No.

Mr. FALEOMAVAEGA. What is the total budget AID works with?

Ms. CARPENTER. I will get those numbers for you.

[The information follows:]

For FY 1996, Congress appropriated $12.4 billion for foreign operations. Less than half of that, $5.8 billion, is available for USAID for funding programs and support costs. This excludes $871.1 million in the Agriculture appropriations bill for PL 480 food programs managed by USAID.

Of the $5.8 billion, roughly $4 billion is available for programs in the Asia and Near East, Africa, and Latin America and the Caribbean regions, as well as for global programs. (USAID programs for Eastern Europe and the New Independent States (NIS) of the former Soviet Union received discrete funds totalling $1.1 billion; the balance goes for credit programs, disaster assistance and support costs.) Once $2.015 billion in ESF funds are set aside for Israel and Egypt earmarks, there is $2 billion left for programs in geographic areas other than Eastern Europe and the NIS, and for programs that are centrally funded.

The FY 1996 appropriations bill requires USAID to fund programs in sub-Saharan Africa at substantially the same percentage of the total availabilities as last year. This requirement and an earmark for child survival and diseases (both are congressional and Administration priorities) tie up almost half of the $2 billion remaining. And there still remain other earmarks, many report directives, and the need to provide money for ongoing activities, which further reduce discretionary funding. All of these elements lead to a very lengthy, studied, decisionmaking process before programming funds.

Of further note, the FY 1996 development assistance level is almost $500 million, or over 20%, less than FY 1995, and the ESF level has dropped $800 million since FY 1992. USAID has had to make some very difficult choices on which programs, and in what countries, it will continue funding, while taking on the significant short-term responsibility for new programs in Europe and the NIS.

Mr. FALEOMAVAEGA. Can you provide that for the record?

Ms. CARPENTER. It is a much lower figure.

Mr. FALEOMAVAEGA. Now, would you agree with me that there is a certain percentage of the total budget allocation that you do have the discretionary authority to allocate money for certain projects?

Ms. CARPENTER. It is very, very little. Almost all of our funding is already earmarked.

Mr. FALEOMAVAEGA. By the Congress.

Ms. CARPENTER. Either by Congress or by administration support for various activities. So the money that I am given to manage is already sorted out in various categories. Support for child survival, for family planning, for the environment, et cetera.

Mr. FALEOMAVAEGA. I understand. But for the most part, your hands are tied then as far as giving you any discretion on how to specifically spend money for these different activities.

Ms. CARPENTER. That is right. Fortunately in Asia there are a lot of opportunities to use funding for the areas that the Administration and the Congress both agree are very important, but often what we could use more of in certain countries is funding that is not protected and is in scarce supply.

Mr. FALEOMAVAEGA. You mentioned earlier that the Japanese have a different method of providing foreign aid and I agree with you.

Could we not learn something from the way the Japanese do their loan programs? This is how they do it. We will give you $10,000,000 to this country, but the money stays in Japan.

The Japanese go over there and do the work and maybe with the labor of the donor country that they do. Just the basic labor, but the money still stays in Japan.

How does that contrast with our foreign aid program?

Ms. CARPENTER. Actually, 80 percent of our foreign aid program stays in the United States.

Mr. FALEOMAVAEGA. Seventy-eight percent.

Ms. CARPENTER. Eighty.

Mr. FALEOMAVAEGA. Eighty percent stays in the United States.

Ms. CARPENTER. Yes.

Mr. BEREUTER. Beltway.

Mr. FALEOMAVAEGA. I gladly yield to my friend.

Mr. KIM. Thank you for yielding.

I do not want to say this bluntly, but I have the impression today that we do not know what we are doing. I do not see any criteria of who gets what.

I asked you a question about some countries getting more money and other countries getting less money, and who decided this. We do not know who makes the decision.

I do not understand the basic criteria. I am very frustrated today. I am sorry.

Ms. CARPENTER. Let me see if I can review for you how this process works. Obviously, in most of these countries we have had programs for some time and we have a good sense of where the needs are and where we are able to provide assistance.

Each of our missions submits to me a budget every year identifying where they would like to go in the coming year. We put all of these requests together and try to figure out how we can best use the scarce resources we have.

There is not enough to meet the needs of all of our missions, but in many cases we are talking about programs that are relatively mature, where we are already seeing tremendous results, and just a little bit more assistance will allow us to achieve our goals.

For instance, in family planning in Indonesia we have been involved for 20 years. The Indonesians are now very capable of running their own family planning programs, or they will be soon. We have had a joint assessment with the Indonesians to figure out what it will take to complete our assistance to Indonesia in this area. So we now have a plan to exit from that area.

But in some other areas we feel it will take a little bit longer to get to that point. Our goal is to work ourselves out of a job in each of these countries. We want to help develop the capacity for these countries to manage their own development needs.

So our targeted technical assistance is aimed at increasing capacity, changing the policy environment and basically leveraging as much assistance from other sources, whether it is the private sector or other donors. So, we have to look at a wide range of factors in every case.

Mr. FALEOMAVAEGA. Mr. Chairman, I would like to reclaim my time.

I just have one more question and I thank Ms. Carpenter for her comments. Going back again to the basic question that I have about our foreign policy and foreign aid.

Ms. Carpenter, what do you consider to be the primary focus or reason for providing foreign aid to these countries? Is that too broad of a question or do you want me to be more specific?

I am still puzzled by it. How do we go about in determining exactly how we allocate our funding for the various countries?

Ms. CARPENTER. Well, in the very beginning you asked if it was a combination of factors and I think yes, it is very much a combination. We have to take an integrated approach, which looks at foreign policy considerations along with other factors.

We would not be involved in some countries unless we had some strong U.S. interests in that area; if there is strong humanitarian need; if there are opportunities for U.S. trade and investment; or if we are able to accomplish something in that country.

We do not like wasting our resources. There are some countries where we are able to focus our efforts in one particular area and really make a difference, in part because other donors are already there.

So, we are also looking at the involvement of other donors. It is a very——

Mr. FALEOMAVAEGA. But it is always a combination of these reasons then basically.

Ms. CARPENTER. Yes.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Mr. BEREUTER. I thank the gentleman. I cannot help but to remind my colleagues that we have not passed an authorization bill since 1985. So, basically, earmarks that exist there are made by our colleagues in the Appropriations Committee.

You recall that, when we were active back there in the previous decade, we were unhappy enough with AID and Administration priorities at that time in a Republican administration for allocating such a huge percentage of the education assistance to graduate and post graduate education as compared to basic education.

We were so unhappy with the allocation that was going to Africa for child survival and for basic developmental aid that we earmarked a given percentage of the budget for the African development program, which has not expired.

But by our own actions or our undisciplined actions in the committee and elsewhere, we have neutered ourself as far as having an impact upon the allocations and priorities of the Administration. This and previous.

I yield to the gentleman from California who has waited very patiently for his time.

Mr. ROHRABACHER. Benevolence is certainly something that should be applauded. Irrational benevolence, I think, can lead to unforeseen consequences.

Let me ask a couple things here. First of all, I was in Cambodia. I am happy to hear things have not just gone totally backwards, but it is a continuing struggle in Cambodia and I think the United States played an important role.

Bringing peace to a troubled area is certainly a rational benevolence on the part of the United States. It is something we can do.

We can use our influence and our presence and our strength to bring about peace to a country like Cambodia, a very positive thing.

In terms of developing the country, no matter how much aid we were to throw into Cambodia and spend a lot of time there, they have got some reforms they have to do in establishing their legal system, perhaps we can help with, but also eliminating corruption and you are talking about logging and such.

These are things the United States cannot do for those countries. One thing I am concerned about is when you mentioned the number was $338,000,000, is that?

Ms. CARPENTER. Yes.

Mr. ROHRABACHER. We take a look and we see some of these countries, for example in India where it appears we are giving somewhere in the area of $160,000,000.

I mean if we are providing $160,000,000 for India, for example, in helping them with their birth control or infrastructure problems, can you tell me how much money India is spending on developing a Blue Water Navy this year, for example?

Ms. CARPENTER. Let me just give you the correct figure for India. The total of $160,000,000 includes $107,000,000 in food aid.

Mr. ROHRABACHER. Food aid. All right.

Ms. CARPENTER. The figure that I gave you was just Development Assistance, not economic support funds.

Mr. ROHRABACHER. All right.

Ms. CARPENTER. It does not include——

Mr. ROHRABACHER. So food aid is $107,000,000 of the $160,000,000.

Ms. CARPENTER. In fiscal 1996, the Development Assistance funds for India were $56.9 million. I am sorry. That is the wrong——

Mr. ROHRABACHER. My question is not——

Ms. CARPENTER. Forty-eight million. I am sorry.

Mr. ROHRABACHER [continuing]. just India focused, because it is more of a situation where you are talking about the principle. But, you have a country like India and there are other countries on the list too, Indonesia is one, which spends a lot of money on its military.

India spent considerably more money that I believe we are giving them on developing a Blue Water Navy and also developing nuclear weapons and also I might add giving foreign aid to other countries.

I think that this is absurd. I think it is absolutely absurd for the United States of America and again I am not singling out India, I am just saying any country that does that, for us to be providing, basically what we are doing is borrowing from our children, because we are doing this with deficit funds, to borrow money from our children in order to give to a country's development aid what it will not itself allocate, when it allocates its own resources for nuclear weapons, is absurd.

In Pakistan, I might add and so people will not say Pakistan pro India, in Pakistan, 75 percent of their population is illiterate and they are spending all kinds of money on weapons and we give them some aid on top of that.

Now, why would we give a country who has a population of 75 percent illiteracy that spends a lot of money on weapons, why would we subsidize that? Foolishness.

Ms. CARPENTER. I think you have raised some important issues. I think there is a lot of concern about the priorities in the budget process for a lot of these countries.

Our hope is twofold. One, that by getting involved in these areas we can convince them how important the social sectors are and——

Mr. ROHRABACHER. This is very similar to a parent who is going to subsidize his child's income and then hoping that he is going to change his or her ways.

Ms. CARPENTER. We have actually seen some results or we would not continue doing this. Also, we do not necessarily just work through the government. In many countries we do not give assistance directly to the government at all.

Mr. ROHRABACHER. That is fair.

Ms. CARPENTER. We work through nongovernmental organizations and we help open up areas that the government is not involved with.

Mr. ROHRABACHER. Let's put it this way. When you were talking about Asia, you began your remarks talking about how in many parts of Asia there are very high growth rates. Indonesia for example, I think, is experiencing a very high growth rate.

For us to be basically borrowing money from our children, increasing our deficit to provide some sort of infrastructure project for Indonesia, for example, or even India or whatever country you are talking about, are we not basically then permitting them to use their scarce resources to invest in businesses that will out-compete our businesses and put our people out of work?

Ms. CARPENTER. I think it is important to recognize that increasingly we are no longer financing infrastructure. There are very few countries in the world where we are financing infrastructure.

We are providing technical assistance to help them deal with the policy and regulatory issues that are obstacles to different financing mechanisms for their own development problems.

For instance, in the health sector in Indonesia, we are trying to help them figure out how to have private financing of health care.

Mr. ROHRABACHER. I think that is a fair answer.

Ms. CARPENTER. This is moving the country in a different direction.

Mr. ROHRABACHER. In those cases, what you are saying is a fair answer. In those cases where we are not just providing people with condoms instead of having their own government provide them with condoms, while their own government spends money on nuclear weapons, then that is a fair answer.

Let me go another direction here. Before I do, let me just say that there are things that I think are legitimate functions for a leading society like ours to play a role in.

Peace facilitation. We did a lot for providing peace in Cambodia and that took a certain amount of commitment on our part and there is, for example, a peace that they have been trying to arrange in the Philippines between the Muslims in the south and trying to create a peaceful situation there.

Those are things this Congressman will never complain about. For example, there are land mines all over the world.

Ms. CARPENTER. Right.

Mr. ROHRABACHER. In which our country, during the cold war, helped proliferate those land mines; and also, even those land mines that we did not proliferate, blow up little children's arms.

If we could be part of international efforts to help set up legal systems or clear land mines or bring peace, those things seem a lot more justified on our part than trying to basically build infrastructure for countries that are refusing to allocate money for their infrastructure, provide social services, like birth control or whatever for their people when they themselves are not willing to allocate the money, but instead allocate it toward, like India does, building a huge navy.

Ms. CARPENTER. That is, in fact, exactly the direction we are going in. We are focusing more and more on policy reform rather than the delivery of services or the financing of infrastructure ourselves.

We simply do not have the resources, and we have a much more effective way of working with limited resources and focusing on technical assistance.

We are indeed supporting de-mining around the world. We are indeed putting quite a bit of our assistance for the Philippines in Mindinao. Our involvement there has really opened up that area and made it possible for the government to proceed with its negotiations.

Mr. ROHRABACHER. Those broad areas are much more important than doing specific little tasks that their own government could do and should do.

Mr. FALEOMAVAEGA. Will the gentleman yield?

Mr. ROHRABACHER. Certainly.

Mr. FALEOMAVAEGA. Part of the peace process in Cambodia, did we not contribute $2,000,000,000 as part of the process?

Mr. ROHRABACHER. We actually did. I might add in Cambodia I went there to see what the Japanese have contributed.

Now do you all know what the Japanese contributed in Cambodia? Well, it is hard to miss when you get there. Everybody is driving around in a Toyota and what they did is all the Toyotas that did not sell they just shipped them off to Cambodia and put it at a market value as if it would be sold as a new car and said this is what we are giving to Cambodia.

Now what do you got? You have a country that is totally dependent on Japan for spare parts now. On their part that was not irrational benevolence at all, was it?

Mr. BEREUTER. Will the gentleman yield?

Mr. ROHRABACHER. I will yield back the balance of my time to the Chairman.

Mr. BEREUTER. I was just going to elaborate further that when we had the election processes in Central America and we provided transportation, the vehicles we bought were all Japanese, not American.

Mr. ROHRABACHER. There you go.

Mr. BEREUTER. And there was no control on them. They were stolen sometimes before they left from the docks.

I thank Ms. Carpenter for coming and starting the dialog with us. I think this may not be good news for you, but I think we will try to proceed more often on a discussion of funding priorities in the region.

Ms. CARPENTER. I welcome that.

Mr. BEREUTER. There are a number of questions that we would like to ask for the record, for example about the environmental partnership program. So I would appreciate it if the Agency could respond to those.

I have a personal request that I would like to have information related to any kind of infrastructure development plans that may have been prepared by the U.S. Government or multi-lateral development banks for the flooding that takes place in Bangladesh and international infrastructure development plans involving India, Nepal and Bangladesh.

If those are available I would like to know where they are, who did them and if possible whether or not they can be provided to this member.

Ms. CARPENTER. In fact, we were very involved in the flood action plan in Bangladesh and have helped Bangladesh develop the capacity to respond to the annual floods.

The issue of the control of waters from India and elsewhere is a lot more complicated. That is something that we have looked at. There are a number of other donors that are also very interested in regional water sharing and water control.

Mr. BEREUTER. Ms. Carpenter, I think the time is right, in an international sense, with India, and certainly Nepal has nothing to lose, for us to encourage that kind of development.

Mr. ROHRABACHER. Would the Chairman yield the time for one more question?

Mr. BEREUTER. I yield.

Mr. ROHRABACHER. You were talking earlier about your meetings in Japan, especially those concerned with southeast Asia and Japan's relationship with southeast Asia.

You also mentioned the pirating of logs, which is of major importance to the long-run interest of the people in south Asia.

Do you believe that there is any positive response on the part of the Japanese and others not to buy pirated logs from, let's say either from Cambodia, which come through the Khmer Rouge territory or from the outlaw regimes in Burma?

In Burma they are just stripping away their people's legacy, their birthright and selling it and putting it in the pockets of this corrupt regime.

Ms. CARPENTER. I think deforestation is a huge problem in this whole area. There has been more and more attention focused on this.

I would just say that the Japanese really led the charge at the Cambodia Consultative Group meeting on trying to get the Cambodians to agree to the plan that the World Bank, the FAO and the UNDP had set up to manage those resources properly.

Mr. ROHRABACHER. How about not to buy the logs? I mean——

Ms. CARPENTER. We are talking about——

Mr. ROHRABACHER [continuing]. everything is made out of teak in Japan.

Ms. CARPENTER. We are talking about certain people in the Japanese Government versus Japanese companies, and that is a different issue all together.

Mr. ROHRABACHER. Yes. OK. Thank you very much.

Mr. BEREUTER. Thank you very much, Mr. Rohrabacher.

Ms. Carpenter, thank you very much for your testimony and your attendance. We look forward to the information additionally that you can provide us as requested. We will excuse you.

Despite the one light that is on, apparently we have a recorded vote now. I believe only one accumulated. So, I will ask the second panel to come forward and be prepared to proceed.

The committee will recess for approximately 15 minutes.

[Whereupon, a brief recess was taken.]

Mr. BEREUTER. The subcommittee will come to order.

Welcome. I hope all of you were here earlier. If not, I did indicate some background information about you. So, I will not proceed with that again. I have been instructed at my request it is Donald Deieso.

Unless there is some particular order that you have in mind, which I am happy to entertain, we will start on the left with Ms. Newhall. Is that satisfactory?

Ms. NEWHALL. OK.

Mr. BEREUTER. Your entire statement, all three of you, will be made a part of the record if it is a written statement and you may proceed as you wish.

Ms. Newhall.

## STATEMENT OF MS. SARAH NEWHALL, DEPUTY DIRECTOR, PACT

Ms. NEWHALL. All right. Mr. Chairman, distinguished members of the Asia and Pacific Subcommittee, thank you for the opportunity to speak with you today.

My name is Sarah Newhall. I am the deputy director of Pact, an international development, non-profit organization headquartered in Washington, DC.

Pact, for over 25 years, has been working in partnership with American PVO's and local NGO's to strengthen the NGO sectors in countries in transition to democracy.

We currently have 20 projects in 12 countries, five of which are in Asia, Indonesia, Cambodia, Nepal, Bangladesh and Vietnam and formerly one in Thailand.

Nearly all of our funding comes from USAID. My own international development experience includes 6 years working in Asia.

Three of those years were spent in Thailand with a Thai NGO called the Population and Community Development Association, during which time democracy was set back when a military coup toppled the civilian government. At the same time, Thai NGO's were emerging as national leaders as a voice against AIDS prevention and for environmental resources management.

In early 1992, I moved to Phnom Penh to become the founding director of the Pact Cambodia program, which was the first USAID-funded NGO strengthening project in Cambodia.

By the way, I drove a Jeep Cherokee when I was in Phnom Penh, not a Toyota, and I wondered where all those American car dealers

were as I saw all the Toyota dealers running around. It seemed like an opportunity lost.

When I arrived, Cambodia was under the authority of the UNTAC, the United Nations Transitional Authority of Cambodia and the first democratic election was still a year away.

I mention these details because I would like to focus my remarks before the committee on the role that USAID has played in Asia in countries that are emerging from authoritative and often extremely repressive governments to governments attempting to utilize more open and transparent democratic practices.

From my experiences in Thailand and Cambodia and observations over the years traveling to Pact programs in Bangladesh, Indonesia and Nepal, I have seen firsthand how socially responsible investments in building the human resources base and community leadership pays for America and pays for the world.

When local community-based organizations learn to be transparent and accountable in financial management and leadership, participatory in planning and evaluation and peaceable in solving conflicts, they are learning the basic skills upon which a democratic culture is built.

Organizational strengthening activities and building the citizens' base are the right USAID strategies for the many countries in Asia that are struggling to put down democratic roots.

In each of the countries where Pact works, a strengthened civil society is serving as an effective counterpoint to potential social chaos and anarchy.

What people fear is instability. When countries have strong community leadership with citizens free to form associations and organize networks and coalitions around like-minded interests, far less likelihood exists for coup d'etats and violent social upheaval.

Stability creates its own synergy, opening new avenues for cooperation and economic interests and development.

The American public, as you mentioned in your opening remarks, Mr. Chairman, according to the most recent study in the University of Maryland's Center of International Security Studies grasps the value of foreign aid as a means of addressing global instability far better than many experts. We can understand this instinctively, if we look at our own American communities. Where citizens have avenues to get their views heard, such as forums like this one, organize to address problems and form association ties with other groups and organizations, we find well-girded communities capable of responding to challenges and even meeting disasters.

When citizens are disengaged, feel helpless to affect decisions that impact their daily lives and have no means of giving voice to their concerns, we find communities in crisis. The same is true no matter where you go in the world.

Let me bring this down to some specifics. Bangladesh, as you know, just observed an orderly transfer of power in a historic democratically held election.

Although the country itself is extremely impoverished, it has an NGO sector of over 10,000 community-based organizations, some 750 of which are involved in social services delivery and sustainable community development.

These organizations, strengthened by capacity-building efforts of Pact and other PVO's, recognize the need to take a proactive role in supporting the democratic elective process.

They decided to organize a coalition to get the leaders of both parties to sit down and work through a conceptual framework for a caretaker government to oversee the election process.

The NGO's then went to work to educate voters on their responsibility as citizens in a democracy. During the period of the caretaker government, the president of Bangladesh consulted regularly with the NGO coalition about the government's role and the impending election process.

The final results speak for themselves—an astounding 73 percent voter turnout and a peaceful transfer of power. It is also notable that for the first time ever in the history of Bangladesh over 50 percent of these voters were women.

This did not happen in a vacuum. It happened as a result of the previous 25 years of USAID and other donors in Bangladesh supporting the establishment of a strong and vibrant civil society.

This could not have happened without a strengthened society and hundreds of citizens' groups civilly acting and engaged in the democratic process.

Earlier this month a USAID-supported delegation of 14 Bangladeshis visiting Washington, DC, described this process and it was just absolutely remarkable.

Equally remarkable in Bangladesh is the emergence of collaboration between the NGO sector and the government sector in social policy development.

Representatives of the national government and grassroots community leaders have formed a working group to do long range strategic planning in social development.

The working group, which includes members of the Prime Minister's office and the national planning office, provides a model of government NGO collaboration for other countries. Pakistan and India are looking both at this and the caretaker form of government.

The working group itself is a direct outgrowth of building up the local capacity of individual NGO's and of forging strategic alliances. Effective coalitions not only promote awareness of problems, but advance sound plans for problem resolution. When networks form, NGO's augment their resources and spheres of influence and deepen the foundations of civil society.

In Cambodia, USAID, through Pact, has played a major leadership role in human resources development. During the post-election period, many citizens for the first time have felt free and safe to organize.

When I arrived in 1992, only four local Cambodian grassroots organizations existed, three of which were human rights organizations. Today, only 4 years later, 300 such local organizations exist.

Many of these nascent newly emerging organizations got their first start and financial grants and management training from Pact through USAID funding. I was proud that it was the United States and not the Germans or the French or the Japanese who funded the first independent students organization, the first citizens advocacy organization, the first AIDS education and prevention organi-

zation and the first professional organizations. These organizations today are building schools, health clinics, village banks and social infrastructure throughout the countryside and they are the major courageous voices calling for good governance. They obviously have not put an end to the abuses in Cambodia, which have been referenced today, but if they were not a voice for good governance, who would be the voice?

Using newly schooled Cambodian training assistance, Pact has also trained the core staff of many local NGO's in planning, communications, program development, financial management and community development.

The results are leaders who are beginning to feel confident managing programs and budgets, interacting with government ministries, involving villagers in project activities and approaching other donors for funds.

These are significant advances for a people only recently traumatized by the extreme abuse of power. The major issue in 1992 was the right to life; the right to live and the right to associate.

Today, people are organizing coalitions and networks around the country and promoting good governance. That is a radical change.

At a time when USAID is trying to formulate a definition of what constitutes effective assistance in promoting democracy in governance, it is important to recognize the potency of these capacity-building human resource development strategies.

In Nepal, a Maoist uprising in several districts has severely curtailed the pace of development this past year. The radical leaders of this movement play upon the poverty, ignorance and frustration of people who have become impatient with the slow pace of development.

The education of Nepal citizens is vital and urgent if the country is to escape the experience of Cambodia and the Khmer Rouge.

Currently Pact is spearheading a 3-year national campaign called Project Word, funded by USAID to teach 500,000 women and girls, many living in villages in the countries' remotest districts to read and write.

The project encompasses three development strategies: a strategy for educating women, a strategy for building the human resources base and a strategy for strengthening community-based organizations for long-term sustainable development.

The scope of the campaign is impressive. Six hundred and fifty trainers, 12,000 literacy facilitators and 300 women and girls already literate.

I believe that capacity-building approach through teaching literacy offers a dramatic way to bring up the capabilities of the whole NGO sector and thus strengthen civil society.

Nepal is nearing a point where it could collapse into chaos and the support from these NGO's and civil society is most important.

So what do all of these examples add up to? Capacity strengthening and building a citizen base, these things take time.

They often take a decade, but, if done right, what is left behind when USAID graduates and exits from a country is new leadership, trained and supported at the local, regional and national levels, thousands of small NGO's doing development with management skills and a resource base to survive, government-NGO under-

standing of their mutual roles and an ability to collaborate in solving development issues, a citizens' base able to act as a watchdog in promoting accountability and transparency in government, stability and less vulnerability to being overwhelmed by violence of social disorder and last, democratic practices, including free and fair elections and participatory public policy decisionmaking. Thank you.

[The prepared statement of Ms. Newhall appears in the appendix.]

Mr. BEREUTER. Thank you very much, Ms. Newhall.

I want to interrupt our proceedings here briefly to recognize and welcome Chairman Gilman, who has arrived and say to the Chairman we marked up and passed out your resolution on the South Pacific.

If you have any written statement you want to submit to the record, of course we would do that by unanimous consent.

Mr. GILMAN. Thank you, Mr. Chairman. I just want to commend you for expeditiously taking care of our legislation. I guess I do better when I am not present.

I want to thank our panelists for being here today and we look forward to a discussion with them. So allow me not to interrupt, but please continue with the panel.

Mr. BEREUTER. Thank you, Mr. Chairman. Your presence is always welcome.

Mr. GILMAN. Thank you.

Mr. BEREUTER. While we are at it, I would ask unanimous consent that the three charts referred to frequently in the course of our question period be made a part of the record.

[The information appears in the appendix.]

Mr. BEREUTER. Mr. Chairman, Ms. Newhall, who you just heard, is the director of programs at Pact and she has spent 3 years working in Cambodia as their country representative.

Next we are about to hear from Dr. Deieso who is testifying on behalf of the American Consulting Engineers Council. He is the president and chief executive officer of Metcalf & Eddy.

Then we will hear from Mrs. Fore, who is Senior Associate at the Center for Strategic and International Studies.

Dr. Deieso, welcome. Please proceed.

## STATEMENT OF DR. DONALD A. DEIESO, PRESIDENT AND CHIEF EXECUTIVE OFFICER, METCALF & EDDY, INC. (TESTIFYING ON BEHALF OF THE AMERICAN CONSULTING ENGINEERS COUNCIL)

Dr. DEIESO. Mr. Chairman, thank you very much. It is a privilege to appear before you and Chairman Gilman. Thank you.

I am representing the American Consulting Engineers Council and we are delighted to have this opportunity to present our views on U.S. foreign assistance in Asia and the role that USAID plays in that process.

My name is Donald Deieso. I am president and chief executive officer of Metcalf & Eddy. We are the oldest and largest U.S. water and waste water consulting engineering company in the United States, with a long 90-year history. We presently have offices on

five continents and have constructed facilities in the Arctic and Antarctic.

I appear today as well in my capacity as chairman of the International Engineering and Construction Industries Council, the acronym IECIC, I-E-C-I-C.

The IECIC is comprised of the largest trade associations representing engineering firms and constructors, specifically the Associated General Contractors of America, the National Constructors Association, the American Institute of Architects and the American Consulting Engineers Council.

Member companies comprising IECIC taken together employ 4,000,000 employees throughout the United States and we have revenues that account for 15 percent of the U.S. gross national product.

Our member firms have worked in over 160 countries, conducting feasibility studies, designing, constructing water and sewage systems, power plants, roads, bridges, ports, airports and other infrastructure facilities.

Basic infrastructure and the services it provides to businesses, households and individuals affects people's lives in meaningful and diverse ways.

I am sure you have heard and will hear today from others far more conversant and the many benefits of USAID to humanity, improving the quality of life.

It is our belief that when foreign assistance monies are used for overseas infrastructure investment an enormous positive effect is realized in both the economies of the United States and the developing country.

Infrastructure first, improves health conditions by providing potable water and sanitation facilities, proper sewage systems and the cleanup of hazardous waste.

Second, it improves the quality of life and the productive capacities of local populations through the establishment of irrigation and drainage systems for agricultural purposes.

Third, provides the basic foundation upon which market-driven economies are built through the construction of roads, ports, power facilities and telecommunications networks. Infrastructure represents, in our view, the "wheels" of economic activity for a newly industrializing nation.

It is no secret that the newly industrializing and developing countries of Asia represent important consumer markets for U.S. goods and services.

At their current rate of growth, many of these countries are poised for significant levels of consumption as their standards of living rise.

In fact, these markets may soon dwarf those of the developed world, but consumers in these Asian markets tend to purchase these goods and services with which they are most familiar.

U.S. engineers and constructors play a key role in exposing these consumers to quality U.S. goods and services at the initial stages of a country's development.

Such exposure often begins with the goods and services and equipment that U.S. engineers specify when they win infrastructure projects in these emerging Asian economies.

It is our strong belief that USAID has played, and must continue to play, a pivotal role in developing U.S. exports. When the United States invests in infrastructure through USAID's foreign assistance program, it realizes very tangible benefits in its domestic economy as well.

Foreign assistance acts as a catalyst for export growth for the U.S. private sector. When U.S. private sector engineers win USAID projects, Americans get value-added jobs, Americans have jobs in those foreign countries and there are jobs in the U.S. home offices and manufacturing sector that provide those goods and services.

Let me give you just one element of how this have been effective. In the environmental sector alone over 200,000 jobs were created last year as a result of exporting environmental goods and services.

Even more to the point, $1 of trade development money by the United States resulted in $2,000 of export economy. If we look at this in a business way, $1 of trade development investment by the U.S. Government produced $2,000 of commerce.

In analyzing the tax effect of that, one will find that the $2,000 of economy produced $300 to $400 of U.S. tax dollars and if one were to look at a return on investment, $1 of trade development and promotion produced $400 to the U.S. treasury, an investment that every businessman, in fact every American, would make in a moment.

We believe that the goals of the engineering and construction industry and the goals of Congress; that is job creation, the promotion of U.S. exports and the revitalization of the U.S. economy are not inconsistent, but interdependent with those of USAID.

U.S. foreign assistance not only stimulates and promotes economic and social development, but also bridges important technical, economic and professional gaps to other cultures.

Let's look just at South Korea, Taiwan and Thailand to see the positive effects that have resulted from infrastructure investment in Asia over the last 20 years. In fact, these countries have now become "donor nations".

Our firm's experience in Thailand is just one example. One of many of great success. We began our incursion in Thailand in 1985 with an $80,000 USAID grant. That $80,000 grant was to investigate the water supply of the country and the city, most specifically Bangkok.

From that $80,000 we parlayed that into a full award from the government of Thailand for $4,000,000 to oversee the construction of the large waste water treatment plant for the city.

I would like to give you a complete happy story and say that the $180,000,000 waste water treatment plant design and construction was awarded to a U.S. company; it was not, it was awarded to a Japanese firm, but the success of our firm in parlaying an $80,000, 10-year ago initial grant permitted us to develop relationships, to set up opportunities in a country, and created jobs back in the United States for 40 U.S. engineers.

In Asia, U.S. firms are facing intense pressure from other developed countries and our competitor nations. They use their bilateral aid programs as market entry mechanisms, nothing less.

Much of the trade finance of Europe and Japan is disguised as foreign assistance and is frequently used to facilitate the export of

economic infrastructure by those countries to promising emerging markets.

If one were to study the 1995 OECD development assistance committee report, you will see that with respect to infrastructure, Japan will have 37 percent of its money go to infrastructure, Germany 21 percent, the United States 5 percent.

Simply put, bilateral foreign assistance from these competitor nations has helped to position their respective business firms to be competitive over the long term in Asia.

Because Germany, France and Japan, for example, fund the early stages of infrastructure projects, they control all subsequent procurements. If one performs an early stage of a study, you can shape the specification to favor the goods deliverer of that country and so on right to completion.

We are feeling that effect tremendously and while the U.S. Government has fulfilled several of its promises with export/import financing to help us in that regard, there is still a tremendous hole in this trade development and getting an early start in the country. USAID is a wonderful vehicle for accomplishing that goal.

I would be remiss if I did not single out one project within USAID, the USAEP, the U.S. Asian Environmental Partnership, as one of the more successful programs affecting our industry.

USAEP gives us a chance to get an early start in a developing country to develop and nurture the relationships necessary to parlay that into our private sector success.

Historically U.S. foreign assistance has made its greatest impact in developing countries when it balances immediate humanitarian assistance while providing the infrastructure that sustains self-propelled economic growth.

Engineering and construction firms' services are an instrument in this long-term development effort that can help provide solutions to some of the overarching problems associated with rapid urbanization in these Asian countries.

We believe that export competitiveness of a much larger segment of the U.S. private sector is directly tied to the success of the U.S. engineering and construction sector.

We stand ready to support Congress in any attempt to maximize, in the face of a shrinking foreign assistance budget, the U.S. return on investments made through U.S. foreign assistance programs.

Closing our export trade imbalances and creating U.S. jobs are the real issue for us. In our view, the USAID budget and activities are a very small investment with enormous returns for this nation.

Thank you.

[The prepared statement of Dr. Deieso appears in the appendix.]

Mr. BEREUTER. Thank you, Dr. Deieso.

Mrs. Fore, we look forward to your testimony now. You may proceed as you wish.

## STATEMENT OF MRS. HENRIETTA HOLSMAN FORE, SENIOR ASSOCIATE, THE CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mrs. FORE. Thank you, Chairman. Mr. Chairman, with your permission I would give an oral statement that is shorter than my written statement.

Mr. BEREUTER. That would be fine.

Mrs. FORE. All right. Thank you. It is a pleasure to see Chairman Gilman also.

Mr. GILMAN. Thank you.

Mrs. FORE. With the Olympics opening this past weekend we are reminded of the Olympic motto, citius, altius, fortius. Swifter, higher, stronger.

If we want America to be swifter in the economic race for jobs, technology and capital, if we want to climb higher in our knowledge and if we want to be stronger in our sense of peace and prosperity then we should build out ties with Asia, and U.S. foreign assistance is one of the most powerful tools and least understood that we have in the United States today.

I would like to see USAID programs even more focused on economic growth, policies and transactions, because in this modern information age, this is what underpins the industrialized world of the 20th and 21st centuries.

It is also the best way to attack poverty, to close the gaps between nations and to benefit U.S. citizens and businesses.

Economic growth lies at the center of American power and presence. History tells us that when a nation loses its economic power that all other sources of strength, be they moral, political or military, begin to fade.

Asia is on the rise and with the dawn of the new century, the Asia-Pacific era begins. U.S. economic assistance and development programs are shaped for our international economic, political, security and foreign policies.

As such, they are an investment in the future of our world society and at $20 per year per U.S. taxpayer a good investment.

In the post Soviet world meeting the challenges to serious transitional issues has become a core element of both international security and U.S. foreign policy.

Fighting for global prosperity, education and creating jobs utilizing new technologies are battles for most nations as surely as the battles to end terrorism, ethnic warfare, the flow of drugs or crime.

The struggle for economic freedom, growth and opportunity is as important as the struggle for democratic freedom.

The yearning for economic growth focuses on the United States, since we are the leader of the largest economy in the world.

There is a growing identity in Asia as a region. It has been fostered by Asia's dynamic economic success and an interdependence based on regional trade, investment, communication and a new political power. It can be seen in the vibrantness of regional associations like APEC and ASEAN.

The Asian identity was recently heard when the Filipinos, in their 50th anniversary of independence from the United States, spoke about their growing sense of "Asianness" and what it meant to them as a nation.

Given the degree to which the United States is expanding its own identity to include strong national interest in the Pacific rim and in Asia as a whole, we must renew our efforts to understand Asia as a phenomenon, its history, its complex cultures and the issues that shape the economic miracle of Asia.

If we then can see important humanitarian, transnational, competitive, economic, political and security purposes for foreign assistance, then we should maintain a strong economic program.

We should set goals and see how we can organize to reach those goals. Simply cutting the funding is cutting off a valuable arm of U.S. foreign policy in an area such as Asia.

Let me turn to a few trends that I see as opportunities for U.S. foreign assistance, because they can be used strategically or commercially, in the short-term or in the long-term.

Strategically we are heading into an Asia-Pacific era and probably, century. The United States should be increasing its ties and working friendships throughout Asia at every level and in every sector.

We must remember that Asia is growing at four times the rate of the world. In such fast growing countries every sector in every citizen's life is undergoing rapid change and upheaval.

If we as a nation wish to understand, help to shape and learn from the experience and wisdom of these cultures, then we must be there as a steady, long-term partner.

Asia is one-half of the world. Why then do we spend only 8.6 percent of our foreign assistance budget in Asia and 10.5 percent of our personnel in Asia?

In 1994, the Japanese spent $5.5 billion or 57 percent of their foreign assistance in Asia. Are we going to sit with deaf ears and uninformed eyes and minds as a sense of "Asianness" and an Asia century emerges?

We have a chance to think of a world without oceans where Asia and the United States share a common border, where we understand each other and share common interests and common hopes for the world.

Why do we think of planning a concerted China policy and then keep prohibitions against using the powerful tool to achieve our ends, U.S. foreign assistance?

It would be like the United States entering a four-man relay race with only three men. Surely we could do better than that.

While understanding the serious and important issues that underlie the current policy, we should study and analyze the prohibitions in a strategic sense. I believe this would be an ideal time to clear away the legislative hurdles to utilizing foreign assistance in China.

At the same time, I would also look to clearing foreign assistance to Vietnam. Vietnam is a strong and growing presence in ASEAN.

Also in our strategic interest would be to reconsider the U.S. Government structure of international economic programs. Dr. Deieso has mentioned the problem of competitiveness.

Consider merging major U.S. offices and agencies with one lead agency. If you ask for a competitiveness rating for the U.S. government structure, I believe we would not fare well compared to the British, Germans or Japanese.

We do not offer effective services to U.S. citizens and entities nearly commensurate with the largest economy of the world and we should not rest until we can offer better, simpler, unified set of informational and financial services.

As we look at the development programs in Asia, we need to be realistic. No development problem is so large that we should work on it alone. An eager, committed partner is an absolute requirement.

It does not have to be a government entity. PVO's, NGO's and private business can fill this role, but some entity must be present locally to take ownership with time and funds to render it sustainable before foreign assistance resources have been completely spent.

In the Asia portfolio, the majority of programs and projects should have the local leadership and financial resources to be self-sufficient without U.S. foreign assistance.

The more the Asia portfolio focuses on the private sector and economic growth the more easily this objective can be met.

Additionally, we should look seriously at the ability to privatize AID functions, projects and programs and we can productively collaborate in many sectors with donor other nations. Our goals are often very similar.

Assistant Administrator Carpenter reported on several management issues of AID. Let me touch on four operational trends and recommendations that I believe are important.

U.S. corporations today are focusing on both time and service. U.S. corporations have cut 30 to 70 percent from the time of many of their processes.

AID should undertake a serious time management restructuring. Rapid response and timing is a critical element of foreign policy and development programs.

In addition, AID should set a corporate style of brevity. Short briefings and short reports. Use computer and telecommunications technology. Continue the process of opening AID's unclassified information so it can be accessed in executive and legislative branches.

In the area of budget structure, greater flexibility in terms of financial instruments and the ability to work with U.S. businesses and the private sector are exactly what the Asian region needs now. The SEED funds and the Africa Development Funds are good examples of flexibility.

Last, there has, from time to time, been consideration of a World Bank style of corporate organization. All staff in Washington traveling out to the countries to design and oversee projects.

I do not see this as useful for the U.S. foreign assistance program. The overseas structure of AID is essential. The day-to-day exchanges in AID's overseas missions are invaluable.

For example, in Indonesia one U.S. advisor working in one ministry can do more to help U.S. business as well as Indonesian development than most Americans realize.

Trying to run a U.S. foreign policy of economic assistance from inside the beltway in Washington would be insensitive to other nations and shortsighted for our nation.

As the 20th century draws to a close, progress on solving development issues has many leaders. A significant number of those are in Asia. We have as much to learn from Asians as we have to give to them.

The 21st century will be a time to deepen our involvement with our Asian partners, not back away from them.

Thank you.

[The prepared statement of Mrs. Fore appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mrs. Fore and thanks to all three of you for your excellent testimony.

I want to turn to Chairman Gilman first to see if he has any comments or questions he would like to ask.

Mr. GILMAN. Thank you, Mr. Chairman.

Excellent panelist and we want to commend you for your presentations. How can USAID better coordinate its work with other donor countries? Any panelist.

Dr. DEIESO. May I? Congressman, many of the donor countries are our competitor nations and from a business view we find ourselves in the trenches in hand-to-hand combat with the Japanese, the Germans, the French and the Brits every day.

The thought that there are collaborative efforts between our government, I must confess to you is a little hard for me to reach and understand, not unless there is a wholesale change in the policies of those countries.

They understand fully that foreign assistance is equal to business development for exports. Perhaps there is a way. I do not see it immediately.

Mrs. FORE. Chairman Gilman, I will take another tack on that. I think we can follow a two-track approach where you can collaborate and you can compete. You collaborate wherever you can and you compete where necessary.

There are lots of areas where we can collaborate with other donor nations, be they in education, population, environment. There are many areas. There are also areas where we can compete, but you can do it as a two-track approach.

Mr. GILMAN. This is all well and good, but how do we coordinate all those efforts? How can AID coordinate all of these efforts?

Mrs. FORE. Well, Assistant Administrator Carpenter began speaking about some of coordination that is going on with Japan now.

Part of the difficulty is that some of our U.S. Government financial instruments, how we fund our projects, are not compatible with some of the other donor nations such as Japan. So the actual blending of funds for a project can be difficult.

But you can co-finance a program or a project. If one seriously wishes to collaborate, sitting down and talking with a development agency of a donor country and talking about a co-finance of a project, stating the similar goals that you have, then it can be done.

Usually the best coordination is at the country level. Many of our AID mission directors do it on a country basis in a variety of sectors, and they are dealing with their counterparts from Scandinavian countries, from Italy, from Germany, from Japan.

I think at the country basis it is probably the best way to coordinate, but it can be done, as Assistant Administrator Carpenter mentioned, on a national basis also.

Ms. NEWHALL. Well, I would just say, but it is not really for me to answer this question, that the current USAID administration

has placed, for the first time, a high priority and put their money where their mouth is in donor coordination and there is unprecedented coordination with UNDP, World Bank, USAID with top leadership, which has not happened over the past few years. There is an increase interaction with both Japan and the EU.

So, it can be done. It needs to be done and in the same way that the United Nations is working with peacekeeping forces and the benefits that come from that, multi- and bi-lateral donors with leadership from USAID are coordinating and should do more of it. The world cannot afford not to.

Mr. GILMAN. Well, we welcome your thinking.

Some scholars, such as Paul Kennedy, have advocated that the United States should focus a great deal of its development efforts on pivotal states like India and Pakistan.

Is USAID stretched too thin and should it focus its efforts on just a few states, given the declining amount of resources we make available and are there countries where we should have no post at all, given their little hope for reform and improvement? What are your thoughts about that?

Dr. DEIESO. Congressman, it is a very intriguing question that for several years our sector has studied. We watch as our competitor nations have focused geopolitical strategies.

Germany, for instance, might pick one or two Latin American countries. They concentrate on those countries with their bilateral aid. They concentrate their industry focus and they are very successful.

We tend to be somewhat unfocused. We are very broad. The solutions for how we become more targeted, with limited resources, I will submit to you is a very complex question.

We would like very much as an industry to be part of that debate. U.S. bilateral aid is spread too thin. Our competitor nations seem to be much more targeted with focus and purpose.

Mr. GILMAN. Mrs. Newhall, would you care to comment?

Ms. NEWHALL. I think the problem is that we are spread too thin. That forces very hard and dangerous choices for the U.S. foreign policy.

So rather than continue to spread ourselves so thin, I think that Congress should be increasing allocations to foreign assistance.

Mr. GILMAN. Just increasing across the board?

Ms. NEWHALL. I think there is sort of an evolution and a continuum of the types of agencies that the U.S. Government supports and that country-by-country you have to make your choices country-by-country, based on some of the issues and criteria mentioned.

Mr. GILMAN. Mrs. Fore?

Mrs. FORE. Chairman Gilman, you have tried many years to rewrite the foreign assistance act (FAA) and relook at the budgets. I think that is the first overhaul, if one could put one's time and energy into something that would really help. An FAA rewrite and a reapportionment of the AID budget would really help.

I do not see shrinking foreign assistance down to a few major countries as being the best approach to foreign assistance. We need more ties broadly and we need to strategically look at our allocations. We have different interests in some countries. There are economic, political, security reasons to be involved with a country.

I think that Asia is an extraordinarily important part of the world to us and yet our allocations for foreign assistance do not reflect its importance and its growing importance into the next century. That I think is of more immediate attention than going to just a large country based programming.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you, Mr. Chairman.

A couple of questions just to make sure I heard you correctly. Dr. Deieso, you said $1 generates $400. What was that $1 in export finance program?

Dr. DEIESO. No. If we look, Mr. Chairman, at the amount of monies that the U.S. Government has in its budget, a unified budget invested in trade, promotion and development and if we were to look just at the environmental sector (it would be equally interesting to look at transportation and/or other infrastructure elements), but if one were to look only at the environmental, for every $1 the U.S. Government invests, money spent by USAID, TDA, Department of Commerce notably as the three major "trade" agencies, $1 produces $2,000 of commerce to U.S. industries that export environmental goods and services.

Mr. BEREUTER. Thank you very much.

Ms. Newhall, I thought I heard you say that the NGO sector in Bangladesh consists of 10,000 community-based development entities. Was that what you said? How can you possibly have that many? What are these entities in general?

Ms. NEWHALL. It is an incredible NGO sector, but examples of the types of groups are groups that are working in village banking, groups that are working in health clinics, sustainable development operations. There are thousands of them.

Mr. BEREUTER. Does the Grameen Bank have anything to do——

Ms. NEWHALL. The Grameen Bank is of the kind.

Mr. BEREUTER. Revolutionary concept which started there I believe.

Ms. NEWHALL. Absolutely. It is a perfect example of one of the best in the world.

Mr. BEREUTER. That is an amazing number.

Ms. NEWHALL. It is amazing that after these democratic elections thousands of these groups formed and that there is a sense of the public interest that is given vent.

Mr. BEREUTER. You of course spent time in managing the Pact effort in Cambodia as I recall. Is there anything that AID can do to surmount the severely limited human resource base that is there working toward Cambodia's future development?

Ms. NEWHALL. I think——

Mr. BEREUTER. We just do not have many people there whose work has the capability to——

Ms. NEWHALL. That is right. It started off in a disastrous situation. I think USAID has kept a country strategy in Cambodia that has put strengthening the human resources base, training and technical assistant as a top priority and they have also put education as a priority.

I think those two priorities are perfectly well suited for Cambodia. America has been the leader in that in Cambodia.

Mr. BEREUTER. Dr. Deieso, I will direct this primarily to you, but any of the three panelists should feel free to address this.

We have heard your comments about the U.S.-Asia Environmental Partnership. It has, as I understand it, ten regional offices: Hong Kong, Singapore, Seoul, and others. Is that a worthy expenditure?

They provide a lot of business travel grants. Some people have characterized that as environmental tourism. How do you justify, explain, or support that part of their program, if you do?

I know you said favorable comments about the program generally, but what about those two specific expenditure items?

Dr. DEIESO. We have been the beneficiary of quite a few of the AEP initiatives. To the question you pose of bringing officials from various countries to the United States as environmental tourism or the converse, that is precisely how relationships are developed.

We have hosted, on behalf of AEP, guests from a number of the Asian countries in the United States. When we have them in this country, we have an opportunity to show them our state-of-the-art designs for water and waste water treatment plants, we have an opportunity to have them spend some time with EPA on some of their regulations and in short, we develop at that level very close relationships, which then we parlay into business opportunities.

Mr. BEREUTER. Is that the best use of our resources?

Dr. DEIESO. Well, it is certainly a very effective use of resources by the measure of our industry. We find ourselves faced virtually in every country, not only in Asia; there is not a country I visit and a minister of the environment or public works that I speak with that has not been visited a year before by Germany or Japan or French business and/or government consortia.

They have developed relationships. They have visited Paris. They have visited London. They have visited Tokyo.

So, I am afraid business is done worldwide the same way it is done in this country. It is done through relationships. People get to know each other. They feel comfortable. There is a level of trust.

If we are not in that circle, then we will be excluded from the business opportunities that emerge. So a long-winded answer, Mr. Chairman, yes, I think it is a very effective way to spend the U.S. dollar.

Mr. BEREUTER. Would either of the other two witnesses like to testify on this particular item? I know it is very specialized. Mrs. Fore?

Mrs. FORE. Whenever you look at transferring information between countries, visits are enormously helpful.

It is always better to see something with your own eyes, to see a model with your own eyes, than it is to be told about it from someone who comes to your country.

I think Dr. Deieso's point that visits are how relationships begin is one part of it. It is also how thinking changes in a country by just seeing a model here in the United States.

Mr. BEREUTER. So the long-term benefits may be substantial, even though if immediate application of those dollars in that way may not seem to be the highest efficiency?

Mrs. FORE. Well, sometimes thinking and policies and programs take time to germinate. So, it is not a quick return, let's say the

way Trade Development Administration's money would be spent, but it has a very strong long-term benefit that is in our U.S. interests.

Mr. BEREUTER. Dr. Deieso, it may be uncomfortable for you to answer this with AID personnel in the audience, but if I could ask you to approach it on the general vantage point of your membership as opposed to your personal views, I want to go to the subject of the forced involvement of AID in structure activities—reintegrating them or refocusing on something they used to do a lot of.

I gather some economic interests in this company think we ought to give up on that, take those resources, and put them into OPIC, ExIm Bank, TDA, and so on. What does your membership in general feel about that? Are there important minority positions one way or the other?

Dr. DEIESO. In fact, Mr. Chairman, it is not even a minority position. I would say that our sector is very cautious and is watching the trends of USAID moving away from infrastructure financing to strictly humanitarian activity.

While there are signs that there is a preference to humanitarian efforts, of course infrastructure for us affords the greatest opportunity.

I would also say that with respect to a comment made here by one of the panel, USAID would benefit, as most U.S. Government agencies would benefit, from what the business sector calls "reengineering".

Taking a look at processes, how they can be done more efficiently, how they can be done better and faster and at a cheaper cost? So I think USAID certainly is a candidate for such reengineering activities.

I will say too with respect to USAID that our industry by and large watches how the competitor nations behave. Congressman, one of the subcommittee members this morning asked, what does Japan know that we do not?

Well, I think they are a wonderful model. They know quite a bit. Their exports are booming. Each year the engineering and construction exports of Japan skyrocket.

They do know something and I think what they know is that by emphasizing infrastructure in their overall trade assistance and trade development and foreign assistance, there is great payback to their country.

I would implore USAID to do the following. In addition to matters of diplomacy as being one of the scorecard elements for how financing is apportioned, that to also be added are economic payback and economic potential payback.

For example, several Asian countries, while very attractive today, are really from an infrastructure view matured, developed.

Japan has enjoyed the benefits and/or Germany may have enjoyed the benefits of building that infrastructure. It is time to move to another country from our view.

So in the scorecard of where to place that dollar, one must build in, not only matters of national security and matters of diplomacy and state, but must also build in where will that dollar give us the greatest return for the industry.

Mr. BEREUTER. Dr. Deieso, you made comments earlier about the country and the firm perhaps, but certainly the country that is involved at the earliest stages has an inherent advantage in the next detailed engineering——

Dr. DEIESO. Yes.

Mr. BEREUTER [continuing]. planning, construction activity. I certainly agree. I have seen that over and over again and it goes beyond that to equipment, the resupply.

Dr. DEIESO. Exactly.

Mr. BEREUTER. Later the reconstruction, the consulting services for the operation of the activity.

Dr. DEIESO. Mr. Chairman, that point is exactly right. Let me share a story of just a month ago—one of our Asian clients, a large airport planning project, we were proposing on that work and he said, well it is already taken care of.

He said, a German firm has come in and will do the feasibility study for free and the results of course will be shared, but do not worry, he said, you will have an opportunity to bid the next stage of the project.

Now, we all know and that is a pattern that you can see as predictable as ever, once that study is done free by a German firm, supported by the German Government, then so will all subsequent pieces of that project.

So by and large what the private sector will do is look at that opportunity now very, very cautiously. In fact, frankly most U.S. firms will not bid because it is clear at that point that there is line of control. Great commerce is being missed.

Mr. BEREUTER. Oftentimes the plans and specifications really skew it very much toward firms from the country.

Dr. DEIESO. Yes.

Mr. BEREUTER. Mrs. Fore, you have mentioned in your testimony and then I found it in your prepared statement, that you are making a number of recommendations about reconsidering the overall U.S. Government structure for international programs and agencies, as you put it.

You said, as I recall, that we do not really fare that well compared to some of our competitors. You have quite a number of very specific examples or opportunities you discuss; and I think, if I understand it correctly, you are listing about 14 or so thereafter.

We will have this at our disposal as we look at your written testimony, but can you summarize very briefly in order to give, for example, Dr. Deieso an opportunity to react to the restructuring that you are proposing and also for the personnel including Ms. Carpenter, who is also here, an opportunity to hear this back and forth reaction?

May I say, Ms. Carpenter, you are one of the few witnesses in this administration or previous administrations that has bothered to sit through the private nongovernmental panel that follows.

I appreciate that. I think that is a very salutary kind of practice that ought to be emulated more often. So I thank you for doing that.

Mrs. Fore.

Mrs. FORE. Yes. On the international programs, they seem to break down between two different areas of responsibility.

One is informational and one is financial. In the international economic development world, the informational agencies do not tend to talk to each other as much as they could.

The Department of Commerce is probably the lead informational agency, but every agency carries information. Among the financial agencies, you have mentioned ExIm, OPIC, TDA, and AID is also one of the financial agencies. Each agency has extraordinary different requirements from a U.S. business, whether it is a background check, whether it is requests for information about a project, the stage at which they can do the funding, the type of funding, whether they are carrying grants, loans, guarantees, partial guarantees, or equity and how they can engage in a project.

It becomes very confusing for a U.S. business that is interested in, let's say, a project in Thailand to put together all the pieces and to go through all the paperwork, because of course each agency has its own set of paperwork, as well as its own regulations.

If we want to be competitive as a nation, we should reorder the U.S. Government programs and there are two parts to it. One is financial and one is informational.

But neither one of them are well structured in the United States and when you compare how Britain and Germany and Japan pass information from their government to their business sector it is a remarkably free, simple, organized activity.

We are very diverse and it makes it confusing and frankly not competitive. If we were serious about it as a nation, we would look at reordering it, because it is a hindrance to us from a competitive basis.

Mr. BEREUTER. Dr. Deieso, do you have any comments or Ms. Newhall if you also have some, certainly I would appreciate it.

Dr. DEIESO. Yes, two. One of the biggest problems we face, Mr. Chairman, is somewhat anachronistic statute and that is the Sherman Antitrust Act.

It had its purpose in the 1920's when this country was at a much different stage of development, but as we enter a global economy, we find that that statute and the implications for U.S. companies severely hamper us in the international market.

Now one would argue that for international business and the pursuit of international business some of the constraints should be lifted so that U.S. companies can have discussions, can form teams and consortia, can have open matters so that we can be effective.

Germany, Japan, competitor nations do not have a Sherman Antitrust equivalent and as a result they can decide which consortia will champion, and which company will lead that initiative. Very different from how we would do our business.

There is another point that I cannot resist making. Those who argue that USAID's funding should be moved to OPIC or ExIm Bank are missing the fundamental point of competitiveness.

By the time a project is mature for OPIC or ExIm funding, it is very far along. In fact, ExIm and OPIC will not fund a project until all the design work is completed.

So as a result, to shift money out of the funding vehicles for early engagement, feasibility studies, characterization studies, over to the final stages exacerbates the problem we have.

Mr. BEREUTER. Well, whether in fact it comes from AID or it is just additional resources, are you not giving a very good argument for increased money to TDA, because they do devote a significant share of their money to early feasibility work.

Dr. DEIESO. Yes. In fact, TDA's entire budget, $60,000,000 or so, when one compares that to the competitor nations is but a fraction.

Make no mistake. In an ideal world, we would be making an appeal to you to increase all of the foreign assistance. Your opening comments are comments that we agree with. It does not appear to be realistic today, in light of all of the other demands on our budget.

Having said that, reapportioning it, moving some to the early stages through TDA and USAID, both of them share very effective ways to get U.S. businesses into countries at the right moment so we can foster and nurture the beginning stages of a business relationship. Both make a lot of sense to us.

Mr. BEREUTER. Thank you.

Mrs. FORE. Could I add one other thought?

Mr. BEREUTER. Please.

Mrs. FORE. I had brought up the notion of an advisor, an American that is in a ministry in a country. That is a very early position. It is the type that Dr. Deieso would like to see out there, I believe.

Mr. BEREUTER. In a ministry.

Mrs. FORE. In a ministry. I gave the example of Indonesia, but an American advisor working in a ministry can work with them on developing the project, the policies, the cash-flow paybacks, what could it, should it look like. What sorts of standards are used. That is immensely helpful.

By the time you are doing a feasibility study out of TDA it is long past that stage and whether that advisor is German, Japanese or American is very telling.

Mr. BEREUTER. I believe that is undoubtedly the case. Do you think we would find much resistance to that kind of a volunteer placement?

Mrs. FORE. Well, some ministries and some countries are more open to it than others, but it usually is based on how long and strong our relationship is in that country and they are usually AID contacts that we have developed in a variety of ministries, whether it is agriculture, health, or energy.

Whatever the ministry, we have developed contacts and those are the ties that become working relationships and then allow an advisor to go into the ministry, serve for a year, two or more.

Often they can work on economic growth policies, which help the country as well as the United States.

Mr. BEREUTER. Mrs. Fore, would you contemplate that these would be people from our own government, retired executives, consultants that are hired from the private sector? What kind of composition by characteristic would those places be?

Mrs. FORE. It is helpful if the person is familiar with government policies as well as private sector transactions. So, if you can have someone who knows both worlds that is the best type of person, wherever they come from.

Dr. DEIESO. Mr. Chairman, if I can add, USAEP is doing just this. They have asked the private sector to offer employees 1-year or 2-year leaves of absence. Those employees will then be placed in that host country's government agencies to help them shape their policy direction.

It is interesting to note in many of the Asian countries when you visit their public works ministries and ministries in the environment, you will see engineers from most of the European countries sitting side-by-side, sharing desks. So the point is extremely well taken. That is how they do business.

Mr. BEREUTER. Do you ask those people to be company neutral when they do that?

Dr. DEIESO. Yes. They would have to be and they would have to rise to higher order.

Mr. BEREUTER. Tough to ask.

Thank you very much for your excellent, very pragmatic advice to us, and also for your very high level kind of testimony that gives us something to consider in some detail.

I thank you very much for your time today and to the first panelist as well.

The subcommittee is adjourned.

[Whereupon, at 4:32 p.m., the subcommittee was adjourned.]

# APPENDIX

## U.S. FOREIGN ASSISTANCE IN ASIA

**July 23, 1996**
**Rep. Howard L. Berman**

Mr. Chairman, I welcome this opportunity to focus attention on the need to increase support for our foreign aid programs in Asia.

As today's witnesses all note, Asia is the most dynamic and vibrant region of the world. In terms of all indices -- economic growth, U.S. exports and investment levels -- Asia presents opportunities for Americans.

At the same time, it remains a region of disturbing disparities in economic income and a region which poses deeply troubling problems for the world. Environmental degradation, high levels of HIV infection, other diseases, and poverty threaten Asia's future prosperity and our own.

We cannot afford to ignore Asia's problems and continue to enjoy Asia's successes.

This afternoon's hearing has another message: the private sector alone is not capable of solving Asia's problems. The private sector needs foreign aid to create the economic and social infrastructure necessary for capitalism to succeed.

Americans receive another direct benefit from aid: 80 percent of our foreign assistance budget is spent in the U.S. for American goods and services.

The lesson of the last two years of cutting foreign assistance is that aid levels must rise if we are all going to continue to prosper.

As a recent report by the Business Alliance for International Economic Development points out,

Exports now account for 10% of the American economy and the fastest growing market for those exports is in the developing world and the prosperity we create through aid becomes our markets tomorrow.

India, for example, has become a Big Emerging Market for U.S. goods. Our AID projects promote free market reforms there.

Other nations, such as Cambodia, have not yet become major markets for American

goods but deserve to remain major recipients for American assistance because of the depth of their economic and social problems.

Newly democratic states such as Mongolia require our continued support.

The issue for our aid program is not to select a few winners and many losers to receive a dwindling share of the American assistance pie but how to increase aid, target our programs to become as effective as possible, in order to propell a rising economic tide that raises all nations.

I submit that this is the challenge we failed to meet during this Congress that I hope we can meet in the next one.

I welcome our witnesses. I understand Ms. Carpenter just returned from Consultative Group meetings in Asia and I would like to hear her assessment as to how those meetings went as well.

**FINAL**

**Statement of the Honorable Margaret Carpenter**
**Assistant Administrator for Asia and the Near East**
**U.S. Agency for International Development**
**Before the House International Relations Committee**
**Subcommittee on Asia and the Pacific**
**July 23, 1996**

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss development trends in Asia and the impact of foreign assistance programs managed by the U.S. Agency for International Development (USAID). I welcome this opportunity, since I have just returned from a three-week visit to five countries in Asia, and I have vivid impressions of the dynamic change in the region and the difference we are making with our targeted assistance programs. In addition, the recent elections in Bangladesh and Mongolia are happy reminders that people from one end of Asia to another are choosing to take the often-difficult path toward political and economic reform. As a nation we can take pride in having contributed to such changes, but we must also recognize the need for continued support to countries in transition. The challenge for us is to provide appropriate assistance given domestic and worldwide demands on our diminishing resources.

As members of this Committee know so well, Asia has long been vital to the interests of the United States. USAID's activities support U.S. foreign policy objectives in a variety of ways, including:

1) creating policy and regulatory frameworks that enable greater U.S. trade and investment while encouraging broad-based economic growth and poverty alleviation;

2) addressing global problems such as rapid population growth, environmental degradation, and HIV/AIDS, whose impact transcends borders and undermines prospects for sustainable development; while

3) supporting democratic transitions to bring stability and prosperity to the region.

On my recent trip to Asia, I saw many examples of ways in which USAID is helping Asians achieve success in these areas. Increasingly, we are getting out of the business of direct investment in infrastructure and provision of services. Instead we are using technical assistance, or the power of ideas, to spark change and leverage assistance from the private sector and other donors. This approach requires much closer coordination with our counterparts in country and with other donors, and it sometimes produces less tangible results in the short and medium term. But it allows us to contribute to long-term, sustainable development with fewer resources and greater emphasis on the ultimate role of the private sector as the primary engine of growth.

My visits to Indonesia, the Philippines, Vietnam, and Cambodia also reminded me of the stark contrast between the dynamic economies in the region and the magnitude of the development challenges they all still face. As we all know, Asia is home to the world's fastest-growing economies. Coming up rapidly behind the Asian "tigers" is another group of "tiger cub" economies, like the Philippines, whose recent economic reform programs have began to produce impressive growth. Still others are just embarking on transitions to market economies. The economic vigor in all three categories is creating dynamic new

opportunities for U.S. trade and investment. Infrastructure needs in East Asia alone are estimated to be over $1.2-1.5 trillion over the next decade (exclusive of Japan). This does not include South Asia, yet it is approximately double the infrastructure needs in Latin America in the same period. American companies are already increasingly active in energy, telecommunications, and other capital improvements. However, remaining policy constraints must be overcome to maximize these opportunities.

In addition, if Asian countries are to sustain current levels of growth, they must address the underlying problems that threaten long-term prospects. The global impact of poverty, environmental degradation, and HIV/AIDs is staggering, in part because of the region's share of the world's population and landmass. USAID-assisted countries in Asia account for 1.43 billion people, or 43 percent of the developing world (excluding China). Despite gains in recent years, conditions are still particularly acute in South Asia, where female literacy is abysmally low, and child malnutrition and mortality are unacceptably high. India has a growing middle class, but it also has more people living in absolute poverty than in all of Sub-Saharan Africa. The number of HIV cases in Asia now exceeds cases in Africa. Poverty, malnutrition, disease, and illiteracy may undermine the region's generally bright economic prospects. If these problems are successfully addressed, Asia could make an even more important contribution to global prosperity and stability.

However, economic growth in Asia, although rapid, has been natural-resource depleting. With a six-fold growth in industrial capacity expected in the next 20 years and human populations continuing to increase, problems such as deforestation, degradation of marine and coastal resources, accumulation of greenhouse gases, and lack of sufficient urban infrastructure to

sustain growing urban populations will become even more evident. Rapid population growth also threatens to erode the per capita gains from the region's economic growth, placing severe stress on existing social infrastructure.

Results

The results of USAID's programs are impressive. For example, USAID helped Indonesia and the Philippines, two key Asia-Pacific Economic Cooperation (APEC) forum countries, reduce average tariffs by 20-25 percent, and reduce non-tariff barriers on agricultural imports. The lifting of Indonesia's ban on soybean imports, for instance, opened a $200 million market to U.S. soybean exporters. In addition, the U.S.-Asian Environment Partnership (US-AEP) program has generated over $800 million in sales of U.S. environmental goods and services in Asia, and created 6,000 full-time equivalent jobs in the U.S. environmental sector.

Recent elections in Bangladesh and Mongolia reaffirm the growing commitment to democracy in the region. USAID supported Mongolia's parliamentary elections in June, which resulted in a landslide victory of opposition candidates over their communist opponents. The election outcome is expected to accelerate economic reforms that also are supported by USAID.

USAID's sustained investments in family planning in Asia have dramatically lowered fertility in the world's most populous region. Over the past thirty years, the average number of children born per mother has fallen from 6 to 3.5 today.

USAID is pleased to have helped Asians achieve successes such as these. Our experience convinces us that the poorest countries have made significant strides in key sectors and could continue to progress with targeted outside assistance. Our experience also indicates that even countries with high economic

growth rates may not be able to sustain their recent achievements without targeted assistance, at least in the short term. Countries in transition may need assistance over a longer period.

Whether tigers or tortoises, Asian countries will benefit from the kind of assistance USAID has proven to be effective. We still have a vital role to play in the region, but our ability to do it effectively will depend on the resources available. Non-food aid resources for Asia have declined 65 percent since 1990. In response to declining resources, USAID has radically reformed the way it does business in the last three years. But the magnitude of the cuts has also forced us to cut back dramatically on the countries and sectors in which we are involved. By the end of this fiscal year, for instance, we will have closed USAID missions in five countries and the Regional Support Mission in Asia, while reducing staff in virtually every remaining mission.

**PROGRAM FOCUS: A. Economic Growth**

Asia's trade is growing quickly. U.S. exports to the region are booming, already representing more than 20 percent of all U.S. exports and supporting 2.7 million American jobs. In 1995, U.S. merchandise exports to the Philippines, Indonesia and Thailand amounted to $5.3 billion, $3.4 billion, and $6.4 billion, respectively. In the same year, the region accounted for 41 percent of world trade. It is expected to increase to 50 percent by the year 2000. In terms of investment activity, the U.S. ranks high among foreign investors. It is estimated that in 1994, U.S. direct investments amounted to $230 million in Indonesia, and $370 million in the Philippines, while cumulative direct investments amounted to $5 billion in Indonesia and $2.4 billion in the Philippines. South Asia also poses enormous opportunities if trade liberalization continues. Already total merchandise trade between the U.S. and India exceeds $8 billion a year, and U.S. merchandise exports to Sri Lanka have been

increasing by around 15 percent per year.

While trade opportunities grow, the sheer magnitude of poverty in the region, if unchecked, will create pressures on the political systems and economic infrastructure, induce mass migration, and further degrade the environment. In response, USAID supports economic growth programs in Asia that increase trade, encourage market economics, channel more financial resources to the private sector, and encourage poverty alleviation.

For instance, USAID has provided targeted assistance for the liberalization of trade and investment policies in Indonesia. A May 1995 package of reforms in Indonesia immediately reduced the average tariff rate from about 20 percent to 15 percent and committed Indonesia to reduce most tariffs to only 5 percent by the year 2003. Similar USAID efforts underway in the Philippines helped that government reduce average tariff rates from 20 percent to 16 percent, commit the country to a single tariff of 5 percent by 2004, remove import quotas on 840 items, and open new opportunities for private investment in infrastructure and telecommunications. As a result of efforts such as these, Indonesia and the Philippines ranked in the top 20 of major U.S. export markets between 1985 and 1995.

One particularly important element of USAID's success in promoting trade in Asia relates to recent increases in agribusiness exports, which are likely to benefit women. Sri Lanka increased agribusiness exports during the past year by 50 percent, to $33 million. In India, the value of horticultural exports grew by 9 percent over the previous year to $400 million.

USAID has also been successful in helping Asian governments move from state-dominated to market economies. Build-own-operate (BOO) and build-own-transfer (BOT) mechanisms have opened up

energy generation to the private sector in Sri Lanka and the Philippines. Asian privatization still lags behind Latin America but is starting to build momentum. Between 1988 and 1993, Asia privatized assets valued at $20 billion. In Indonesia alone, there were partial privatizations during the past year and a half valued at $3 billion in the telecommunications and tin sectors. Also, Sri Lanka and Nepal have privatized their national airlines, while Sri Lanka has privatized some tea estates and Nepal has privatized a number of production firms.

USAID has also helped channel more financial resources to the private sector through capital markets and microfinance. For India, Indonesia and the Philippines combined, funds raised on the capital market doubled from 1993 to 1995, from about $5.5 billion to almost $11 billion. USAID was instrumental in establishing the automated National Stock Exchange, which has rapidly become India's largest exchange. Mobilizing capital for investment also creates jobs. Firms on the Colombo Stock Exchange in Sri Lanka created over 4,500 new jobs in 1995, for a total of 29,000 jobs since 1990 when USAID assistance to the sector began. Overall, 17 percent of the jobs created in Sri Lanka's formal sector in the past year can be linked to USAID assistance.

In microfinance, Asia has surpassed other regions of the world in innovations that assure both profitable operations and broad outreach to large numbers of borrowers, particularly the poor and women entrepreneurs. The Bank Rakyat Indonesia (BRI), for example, was the first bank to demonstrate the profitability of direct loans to microentrepreneurs. There are now 13 million savings accounts through BRI and two million loan clients. In Bangladesh, the Grameen Bank provides branch banking directed at the poor, with more than two million borrowers. The USAID-supported Grameen Trust is replicating Grameen activities in India, Nepal and the Philippines. Another important result is

that private banks are now providing direct loans to microentrepreneurs, including the Hatton Bank in Sri Lanka and the Danamon Bank in Indonesia.

**B. Population, Health and Nutrition**

Overall, the population of Asian countries is growing at an average of two percent per year. At this rate, the population in the region will double to 2.86 billion by the year 2030. The regional total fertility rate average is 3.7 children per woman and the infant mortality rate average is about 65 per 1,000 live births. However, impressive gains continue to be made in reducing the total fertility rates and infant mortality rates which contribute to declines in the population's natural rate of growth. At the same time, governments are acknowledging their changing role from one of service delivery for all, to one of regulatory oversight and provision of services as a safety net for the poor. An equally encouraging trend is that new partnerships are being developed between government and the private sector for more cost-effective and high quality primary health care services.

Yet many problems remain to be addressed. Maternal mortality rates in a large number of Asian countries are alarmingly high, accounting for 50 percent of the world's maternal deaths each year. The rates in Nepal and Bangladesh, for example, are 75 to 100 times higher than those in the United States. In addition, for every maternal death, approximately 30 women sustain injuries in pregnancy and childbirth that go untreated, creating a lifetime of pain and suffering. Over the coming decade, the number of new HIV infections in Asia will dwarf those in Africa. Although the epidemic is progressing rapidly, most governments are moving slowly in acknowledging and addressing the problem. While infant and child mortality rates have been falling throughout the region, South Asia still has 50% of the world's malnourished children.

USAID's investments and leadership in the population and health sector continue to play a significant role in helping the countries in the region achieve impressive results. In Bangladesh, the total fertility rate has been halved from 1967 to 1994; in Indonesia, the total fertility rate dropped from 5.2 in 1976 to 2.8 in 1994; and in the Philippines, the total fertility rate dropped by one-third from 1973 to 1994.

USAID-assisted immunization programs, diarrheal disease control, micronutrients and control of acute respiratory infections have played a critical role in the dramatic and continuing decline of infant mortality rates in the region. Bangladesh's infant mortality rates declined from 140 per 1,000 live births in 1970 to 88 per 1,000 live births in 1994; Indonesia's infant mortality rates dropped from 112 in 1980 to 57 in 1994. The Philippines has had much success in its child survival programs, cutting its infant mortality rate from 62 in 1970 to 33 by 1994. The infant mortality rate in India declined from 101 in 1978 to 79 in 1992.

Early USAID investments in HIV/AIDS prevention, working with both host governments and non-governmental organizations, are now beginning to show positive results in slowing the spread of the HIV/AIDS epidemic. In Thailand, an aggressive educational and behavior-change campaign among high-risk groups is reducing new HIV infections. Since 1989, when the government started its HIV control programs, the use of condoms by commercial sex workers has increased from 14 percent to 94 percent today. In the Philippines, the HIV infection rate is still one of the lowest in Asia, thanks to high public awareness of HIV and a national surveillance system that closely safeguards behavior of high-risk groups. In South Asia HIV transmission often follows truck routes. In response, non-governmental organizations in Nepal are beginning to change the behavior of truckers through education, condoms, and treatment for sexually transmitted diseases.

**C. Environment**

Asia is experiencing dramatically increased environmental pressures as a result of rapid population and economic growth. Energy demand is continuing to escalate in the region and is largely being met through fossil fuels (coal and oil) and through fuelwood. This demand has contributed to accumulation of greenhouse gases and an increasing certitude of global climate change. Rapid deforestation continues across the entire region. Forests are already primarily gone in South Asia and a large part of Southeast Asia (e.g. Vietnam, Thailand, and the Philippines). As these timber resources are depleted, the logging concessionaires are moving on to Cambodia, Indonesia, Laos and Papua New Guinea. Coral reefs, mangroves and related fisheries are also on the decline. The rapid increase in urbanization of the region has led to rampant air and water pollution and increased threats to human health.

Progress at the national level has been easier to measure in activities such as water and waste water systems, many of which have been underway for 15 years. In other, newer areas such as climate change, results and reliable date may not be available for five-to-ten years. However, this year we can begin to see annual qualitative results at the program level that suggest we are on the right track.

In global climate change, USAID programs have assisted in the adoption and replication of renewable energy technologies. In India, a sugar cane bagasse generation plant is now up and running and the first private coal washing plant is in place. In the Philippines, USAID helped set up a new natural gas industry, and in Indonesia, USAID assisted the demonstration of wind energy use in the outer islands.

In biodiversity and forestry, USAID programs focused on community-based forest and coastal management which served to

both improve the status of forests and coastal resources in Asia and the livelihoods of the local people. In Nepal, community-based management of forests has increased by 25 percent, and forest biomass has increased by 30 percent. Through USAID initiatives, policies of community-based natural resource management were also adopted in the Philippines, Indonesia and Sri Lanka. USAID's Biodiversity Conservation Network has helped create enterprises in several Asian countries, which are starting to turn a profit and which teach indigenous and local people how to protect their resource base while at the same time earning a living.

In urban and industrial pollution, USAID's U.S.-Asia Environment Partnership (US-AEP) programs is working to help establish increasingly efficient and cleaner industrial regimes throughout Asia. US-AEP's clean revolution links U.S. private and public sectors with those of 35 Asian and Pacific countries by mobilizing U.S. environmental experience, technology and practice. USAID programs have been successful in the first-time introduction of municipal bonds in India and Indonesia. In the Philippines, the pilot phase of our bilateral industrial pollution reduction program has already reduced national industrial-based organic pollution of water by almost 2 percent.

**D. Democracy/Governance**

Democracy has made definite inroads in Asia in the last decade, although the political transitions have often been rocky. USAID has supported democracy and governance activities in virtually every program in Asia, with notable success in the areas of elections, civil society, local governance and women's empowerment. In Mongolia's recent parliamentary elections, the now-former opposition parties increased their number of seats from 5 to 50 (out of a total of 76), demonstrating the fairness of the electoral process as well as the overall confidence in the new democratic system. In Bangladesh, the Fair Election

Monitoring Alliance, which is a coalition of 180 non-governmental organizations, was the sole source of unbiased election-day information during the two tense parliamentary elections in the last six months.

In civil society, USAID has supported three national coalitions in the Philippines representing disadvantaged groups (urban poor, indigenous peoples, and fisherfolk) that have begun to influence government policy. In Bangladesh, the Bangladesh Independent Garment Workers Union is the first democratic and independent union in this important industry. With support from USAID in addressing devolution of power to the local level, central government grants to local governments in the Philippines increased from $280 million in 1989 to $2.3 billion in 1996. In Sri Lanka, over 200,000 people used community-based mediation boards.

USAID has also supported a broad range of women's groups that advocate greater political and economic empowerment. A coalition of 20 women's non-governmental organizations in Mongolia successfully promoted women candidates and women's issues in the recent parliamentary elections. In Indonesia, a national coalition of women's non-governmental organizations is monitoring compliance with the UN Convention to Eliminate Discrimination Against Women. In Bangladesh, the number of women serving on local councils for alternative dispute resolution increased by 1,300. In Nepal, the Supreme Court ruled that the existing inheritance laws were unconstitutional in that they discriminated against women.

In countries in transition to more open societies, USAID has supported political and legal advocacy and the training of public defenders. Civic advocacy organizations in Indonesia have influenced government policy regarding labor regulation, alternative dispute resolution, and the removal of ID cards of

the symbol for former political detainees. Indonesian non-governmental organizations have also monitored human rights abuses and corruption. The Indonesian Legal Aid Society has won several landmark cases involving civil and political rights. In Cambodia newly trained public defenders have achieved a 34 percent acquittal rate on behalf of their indigent clients.

**E. Leveraging Resources and Donor Coordination**

USAID leverages the private sector and other donors to achieve results far greater than what we could achieve acting alone. In India, USAID's technical support to the Power Finance Corporation, state electricity boards, and private power companies has helped leverage millions of dollars of loans from the World Bank and Asian Development Bank. It also has opened the way for significant U.S. private investment in power generation by improving the policy and institutional environment for investment in the private sector.

USAID is increasingly encouraging the private sector to take more responsibility for providing services and infrastructure, ranging from health services to sewage treatment, roads and energy. In Indonesia, for example, USAID supports a pilot, managed-health-care activity in Central Java that is being evaluated as a model for replication to the rest of the country by the World Bank and Asian Development Bank.

USAID also encourages broader reach by banks and capital markets, supporting direct commercial bank lending to microentrepreneurs in Indonesia and Sri Lanka, and helping to double investment funds raised on the capital market in India, Indonesia and the Philippines.

The foreign capital attracted to the region has augmented domestic savings and generated substantial new employment opportunities in the formal sector, e.g. industry and service

sectors. Labor productivity has been enhanced and wages have soon followed this upward trend. In Indonesia, we found that for firms that raised capital on the Jakarta Stock Exchange between 1990 to 1994, the real wages of the newly hired workers rose by 9 percent annually, on average, well above the economy-wide average increase. Thousands of households benefitted from increased incomes, and overall economic rates were accelerated by the massive capital inflows.

The coordination of donor investments is also an important element of the leveraging process. For instance, the World Bank supports USAID policy dialogue objectives in Bangladesh, Cambodia, India, Indonesia, and the Philippines on key structural adjustment reforms and funds infrastructure development. Similarly, the Asian Development Bank (ADB) provides loan resources needed to address macroeconomic and infrastructure needs. For example, ADB supported Indonesia's infrastructure loan program and is expected to provide $30 million in financial assistance. Moreover, the World Bank and ADB will replicate the USAID supported managed health care program at the national level.

USAID also works closely with Japan, which has become the largest donor in the Asia region, although it lacks the technical and country expertise of our USAID field missions. The U.S.-Japan Common Agenda will play an increasingly important role in leveraging substantial bilateral assistance. Since its inception in July 1993, the U.S.-Japan Common Agenda partnership has provided a broad framework for identifying and launching over 20 initiatives in selected countries. Existing initiatives are in five broad categories: promoting health and human development, challenges to global stability, protecting the global environment, advancing science and technology, and exchanges for mutual understanding. For population, health, and HIV-AIDS alone, the Japanese have pledged up to $3 billion new funding

between 1994 and 2000.

Examples of Common Agenda areas of cooperation in Asia are population and HIV/AIDS in Bangladesh, Indonesia and the Philippines; measles immunization in Bangladesh; polio eradication in Bangladesh and India; biodiversity conservation in Indonesia; and support for grass-roots activities in Bangladesh, Indonesia, and the Philippines.

**F. Resource Constraints**

Unfortunately, resources for development assistance in Asia have declined 65 percent since 1990, despite successes and continued need. The President's FY97 budget request for USAID includes a total of $338.3 million in Development Assistance and Economic Support Funds for programs in Asia.

This level of funding is absolutely essential if we are to continue to support political and economic reform in the region and address global issues that will affect the future of all of us. In our ever-more interdependent world, the prosperity and stability of Asia will increasingly influence our own lives and well-being. The small investment we make in development assistance to Asia in the next year will bring far greater returns for years to come -- in trade opportunities, domestic jobs, a cleaner and healthier global environment, and general goodwill for the United States. In contrast, further cuts in foreign assistance may considerably slow the important economic and political transitions underway in the region, thus undercutting our ability to reap the benefits of our investment in the region to date.

USAID has dealt with recent budget cuts by seeking greater efficiencies, trimming programs, drawing down funds in pipelines, closing missions, and laying off employees. In addition, the Asia/Near East Bureau has developed a process for allocating

scarce resources among country programs, based on 1) results achieved to date, 2) prospects for future impact, 3) foreign policy considerations, and 4) the degree to which activities support Bureau or Agency priorities. I would be happy to discuss this process and the impact of recent and projected budget cuts on programs in Asia. Suffice it to say, we can no longer simply do "more with less." We have passed the point where we could just shave across the board; now we must cut activities in entire sectors or close missions.

Our goal has always been to work ourselves out of Asia, as Asian countries are able to plan, implement and finance their own development. We are beginning to do that in countries like Thailand. In some countries like Mongolia, we plan to continue limited support through non-governmental organizations or contractors for some time, even if budget constraints force us to close our missions.

The decisions to reduce or eliminate USAID presence are particularly painful since overall we are convinced that USAID is making a significant difference in Asia. Our Asian partners value our ideas, our technologies, and our resources. We gain as much as they do from our involvement in the region, and we stand to lose as much as our Asian partners if we withdraw before they have achieved sustainable development.

We greatly appreciate the support of this committee in the past. I strongly urge you to continue to play a supportive role so that USAID can maintain its leadership and effectiveness in this important region.

Thank you.

# TESTIMONY BEFORE THE ASIA AND THE PACIFIC SUBCOMMITTEE OF THE HOUSE INTERNATIONAL RELATIONS COMMITTEE

**July 23, 1996**

**Submitted by**
**Sarah Newhall, Deputy Director**
**Pact**

Mr. Chairman, Congressman Berman and distinguished members of the Asia and the Pacific Subcommittee, thank you for providing me this opportunity to speak to you today about USAID's programs in Asia.

My name is Sarah Newhall, and I am Deputy Director of Pact, an international development nonprofit organization headquartered here in Washington D.C. Pact has been working for over 25 years in partnerships with American PVOs and local NGOs to strengthen the NGO sectors in countries in transition to democracy. We currently have 20 projects in 12 countries, five of which are in Asia—Indonesia, Cambodia, Nepal, Bangladesh and Vietnam, and, formerly, one in Thailand. Nearly all our funding comes from USAID.

My own international development experience includes six years working in Asia. Three of those years were spent in Thailand with a Thai NGO, the Population and Community Development Association, during which time democracy was set back when a military coup toppled the civilian government. In early 1992, I moved to Phnom Penh to become the founding director of the Pact Cambodia program. When I arrived, Cambodia was under the authority of the United Nations Transitional Authority of Cambodia (UNTAC), and the first national democratic election was still a year away.

I mention these details because I would like to focus my remarks before the committee on the role that USAID has played in Asia in countries that are emerging from authoritative and often extremely repressive governments to governments attempting to adopt more open and transparent democratic practices. From my experience in Thailand and Cambodia and observations traveling to Pact's programs in Bangladesh, Indonesia and Nepal, I have seen firsthand how socially responsible investments in building the human resource base and community leadership pays for America and for the world. When local community-based organizations learn to be transparent and accountable in financial management and leadership, participatory in planning and evaluation and peaceable in solving conflicts, they are learning the basic skills upon which a democratic culture is built.

Organizational strengthening activities and building the citizen's base are the right USAID strategies for the many countries in Asia that are struggling to put down democratic roots. In each of the countries where Pact works, a strengthened civil society is serving as an effective



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counterpoint to potential social chaos. When countries have strong community leadership, with citizens free to form associations and organize networks and coalitions around like-minded interests, far less likelihood exists for coups d'etat and violent social upheaval. The resulting stability creates its own synergy, opening new avenues for cooperation and economic development.

The American public, according to the most recent study by the University of Maryland's Center for International and Security Studies, grasps the value of foreign aid as a means of addressing global instability far better than many experts. We can understand this instinctively if we look at our own American communities. Where citizens have avenues to get their views heard (such as this forum today), organize to address problems and form associational ties with other groups and organizations, we find strong well-girded communities capable of responding to challenges, and even meeting disasters. When citizens are disengaged, feel helpless to effect decisions that impact their daily lives and have no means of giving voice to their concerns, we find communities in crisis. The same is true no matter where you go in the world.

Let me bring this down to specifics.

Bangladesh, as you all know, just observed the orderly transfer of power in an historic democratically-held election. Although the country itself is extremely impoverished, it has an NGO sector of over 10,000 community-based organizations, some 750 of which are involved in social services delivery. These organizations, strengthened by the USAID-funded capacity building efforts of Pact and other PVOs, recognized the need to take a pro-active role in supporting the democratic election process. They decided to organize a coalition to get the leaders of both parties to sit down and work through a conceptual framework for a caretaker government to oversee the election process. The NGOs then went to work to educate voters on their responsibilities as citizens in a democracy. During the period of the caretaker government, the president of Bangladesh consulted regularly with the NGO coalition about the government's role and the impending election process. The final results speak for themselves—an astounding 73% voter turnout and the peaceful transfer of power. It is also notable that 50% of the voters were women. This could not have happened without a strengthened civil society and hundreds of citizens' groups engaged "civilly" in the democratic process.

Just as remarkable in Bangladesh is the emergence of collaboration between the NGO sector and government on social development policy. Representatives of the national government and grassroots community leaders have formed a coalition to do joint long-range strategic planning in social development. The coalition, which includes members of the prime minister's office and the national planning office provides a model of government-NGO collaboration for other countries. The coalition itself is the direct outgrowth of building up the local capacity of individual NGOs and the forging of strategic alliances. Effective coalitions not only promote awareness of problems but advance sound plans for problem resolution. When networks form, NGOs augment their resources and spheres of influence and deepen the foundations of civil society.

In Cambodia, USAID, through Pact, has played a major leadership role in human resource development. During the post-election period, many citizens for the first time have felt free and safe enough to organize. When I arrived in early 1992, only four grassroots organizations existed; today over 300 such organizations exist. Many of these nascent, newly emerging organizations got their start through small financial grants and management training from Pact. I was proud that it was the U.S. and not the Japanese, the Germans or the French who funded the first independent

student organizations, the first citizen's advocacy organization, the first AIDS education and prevention organization and the first professional associations. Today these organizations are building schools, health clinics, village banks and social infrastructure throughout the countryside, and they are courageous voices calling for good governance. They obviously haven't put an end to all the abuses in Cambodia, but, if they were not a voice, who would be?

Using newly schooled Cambodian training assistants, Pact has also trained the core staff of many local NGOs in planning, communications, program development, financial management and community development. The results are leaders who are beginning to feel confident managing programs and budgets, interacting with government ministries, involving villagers in project activities and approaching other donors for funds—significant advances for a people recently traumatized by the extreme abuse of political power. At a time when USAID is trying to formulate a definition of what constitutes effective assistance in promoting democracy and governance, it is important to recognize the potency of these capacity building and human resource development strategies.

In Nepal, a Maoist uprising in several districts has severely curtailed the pace of development this past year. The radical leaders of this movement play upon the poverty, ignorance and frustration of people who have become impatient with the slow pace of development. The education of Nepal's citizens is vital and urgent if the country is to escape the experience of Cambodia and the Khmer Rouge.

Currently Pact is spearheading a three-year nationwide campaign called Project WORD, funded by USAID, to teach 500,000 women and girls—many living in villages in the country's remotest districts—to read and write. The project encompasses three development strategies: a strategy for educating women, a strategy for building the human resource base and strengthening local capacity of community-based organizations and a strategy for sustainable development.

The scope of the campaign is impressive. In the first two years, WORD has trained 650 trainer of trainers and 12,000 literacy facilitators, who have taught 300,000 women and girls to read and write. All the classes are taught by local community-based organizations, who, through meeting stringent reporting requirements and regular monitoring, are learning the basics of how to craft a budget and account for funds, supervise staff and report on project results.

I believe the capacity building approach through teaching literacy offers a dramatic way to bring up the capabilities of the whole NGO sector and thus strengthen civil society. It's what I like to call the "whoosh" effect, or, to use a phrase from evolutionary theory, "punctuated equilibrium." Nepal is now nearing such a point, but at the same time is threatened by the very real possibility of collapse into chaos. The choice of what happens next is in some real measure ours to make.

But equally important is the impact of literate women on their communities. Teaching women to read and write empowers them and accelerates sustainable development. As the saying goes, educate a woman, and you educate a family. Since project WORD began, whole classes of girls in numerous villages have gone on to enroll in the 4th grade after completing the six-month literacy course. In a recent PBS television program on the WORD project, viewers heard from women literacy graduates who had built a community center, from which they are now managing a micro-credit program and a veterinary service. Other women spoke of new businesses begun and a fierce commitment to making sure their girl children enroll and stay in school. The stories typify the sustainable development results that occur when women learn to read and write.

So what do these examples add up to? Capacity strengthening and building the citizen base take time, often at least a decade. But if done right, what is left behind when USAID graduates and exits a country is—

- thousands of small development NGOs with management skills and a resource base to survive
- new leadership trained and supported at local, regional and national levels
- government/NGO understanding of their mutual roles and an ability to collaborate in solving development issues
- a citizen's base able to act as a watchdog in promoting accountability and transparency in government
- democratic practices, including free and fair elections and participatory public policy decision making
- stability and less vulnerability to being overwhelmed by violence or social disorder

# TESTIMONY OF DONALD A. DEIESO

PRESIDENT AND CHIEF EXECUTIVE OFFICER

METCALF & EDDY, INC.

Before the

HOUSE INTERNATIONAL AFFAIRS COMMITTEE
SUBCOMMITTEE ON ASIA AND THE PACIFIC

On behalf Of

THE AMERICAN CONSULTING ENGINEERS COUNCIL
(ACEC)

AMERICAN CONSULTING
ENGINEERS COUNCIL

July 23, 1996

# AMERICAN CONSULTING ENGINEERS COUNCIL

# STATEMENT TO THE

# HOUSE ASIA AND PACIFIC SUBCOMMITTEE

# OF THE INTERNATIONAL RELATIONS COMMITTEE

Donald A. Deieso, Ph.D
President and CEO
Metcalf & Eddy, Inc.
July 23, 1996

## INTRODUCTION

I would like to thank Chairman Bereuter, Mr. Berman and the subcommittee for this opportunity for the American Consulting Engineers Council (ACEC) to present its views on the use of U.S. foreign assistance in Asia and the role we see the U.S. Agency for International Development (U.S. AID) playing in that process.

My name is Donald A. Deieso; I am President and Chief Executive Officer of Metcalf & Eddy, Inc. Metcalf & Eddy is a U.S. water and wastewater consulting engineering company, with 3,500 employees and a 90 year history of providing water and wastewater design, construction and treatment services in the U.S. and overseas. Metcalf & Eddy presently has offices on five continents; we have also constructed facilities in the Arctic and Antarctic.

I appear today as well in my capacity as Chairman of the International Engineering and Construction Industries Council (IECIC). IECIC is comprised of the largest trade associations representing architecture, engineering and construction firms in the U.S.: the Associated General Contractors of America (AGC); the National Constructors Association (NCA), the American Institute of Architects (AIA) and ACEC. The member companies of IECIC, taken together, employ over four million engineering, architectural and construction employees throughout the U.S., with revenues that account for 15% of the U.S. GNP.

## ENGINEERS, INFRASTRUCTURE AND THE U.S. ECONOMY

ACEC, a federation of fifty-two (52) state and regional councils, alone represents over 5,500 private practice consulting engineering firms. These firms employ over 200,000 engineers, scientists, technicians, land surveyors and other support personnel who annually design over $100 billion in constructed public works and private industry facilities. ACEC and IECIC

member firms have worked in over 160 countries conducting feasibility studies, designing and supervising the construction of water and sewerage systems, power plants, roads, bridges, ports and airports as well as other infrastructure facilities. Basic infrastructure, and the services it provides to businesses, households and individuals affects people's lives in meaningful and diverse ways.

**It is the belief of ACEC and IECIC that when foreign assistance monies are used for overseas infrastructure investment, an enormous positive effect is realized in the economies of the U.S. and the developing country.**

Infrastructure: 1) improves health conditions by providing potable water and sanitation facilities, proper sewerage systems and the clean-up of hazardous and toxic wastes; 2) improves the quality of life and the productive capacities of local populations through the establishment of irrigation and drainage systems for agricultural purposes; and 3) provides the foundation upon which dynamic market-oriented economies are built through the construction of roads, ports, airports, power facilities and telecommunications networks. Infrastructure represents, if not the engine, than the "wheels" of economic activity of a developing or newly-industrializing nation.

It is no secret that the newly industrializing and developing countries of Asia represent important consumer markets for U.S. goods and services. At their current rate of growth, many of these countries are poised for significant levels of consumption as their standards of living rise. In fact, these markets may soon dwarf those of the developed world. But consumers in these Asian markets tend to purchase those goods and services with which they are most familiar. U.S. consulting engineers play a key role in exposing these consumers to quality U.S. goods and services at the initial stages of a country's development. Such exposure often begins with the goods, services and equipment that U.S. engineers specify when they win infrastructure projects in these emerging Asian economies. It is the belief of ACEC and IECIC that U.S. AID has played, and must continue to play, a pivotal role in developing U.S. exports.

- When the United States invests in infrastructure through U.S. AID's foreign assistance program, it realizes very tangible benefits in its domestic economy. Foreign assistance acts as an engine for export growth for the U.S. private sector. When private sector consulting engineers win U.S. AID-financed projects, Americans get value added jobs -- jobs for U.S. citizens in foreign countries, jobs in the home offices and jobs in the plants that produce the required goods and services that will be used in the construction and operation of those overseas infrastructure facilities.

  ACEC believes that the U.S. consulting engineering industry and the Congress' goals of job creation, the promotion of U.S. exports and the revitalization of the U.S. economy are not only consistent, but interdependent. The U.S. demonstrates global leadership when it combines these objectives with sound, long term development policies that improve the living conditions of people in less developed countries.

- U.S. foreign assistance not only stimulates and promotes economic and social

development, but it also bridges important technical, economic and professional gaps to other cultures, thereby helping to decrease their dependence on foreign assistance. We need only look to South Korea, Taiwan and Thailand to see the positive effects that have resulted from infrastructure investment in Asia over the last twenty years. In fact, these countries have now become donor nations.

The need for a comprehensive and integrated approach should remain at the heart of any U.S. AID program to provide basic human needs, essential infrastructure and the requisite institutional capacity to support that infrastructure. It is through the combination of these two approaches that a country successfully travels down the path toward self-sufficiency and sustainable development. Again, South Korea, Taiwan and Thailand are an excellent testaments to this.

- In Asia, U.S. firms face intense pressure from other developed countries or competitor nations that use their bilateral aid programs for market entré purposes. Much of the trade finance of Europe and Japan is disguised as foreign assistance and is frequently used to facilitate the export of economic infrastructure by those countries to promising emerging markets.

  The 1995 Overseas Economic Cooperation and Development's (OECD) Development Assistance Committee report shows the percentage of official development assistance (ODA) in support of overseas infrastructure projects from the following countries:

| | |
|---|---|
| Japan | 36.7% |
| Germany | 20.9% |
| France | 11.9% |
| Italy | 10.6% |
| Canada | 10.5% |
| U.S.A. | 5.4% |

  Simply put, bilateral foreign assistance from these competitor nations has helped to position their respective business firms to be competitive over the long term in Asia. Because Germany, France and Japan, for example, fund early stages of infrastructure projects, they are able to strongly influence subsequent procurement for these projects to maximize the export of their country's goods and services. By guiding the design specifications to meet their own unique private sector criteria, they automatically make their products more competitive. As a result, it is European and Japanese products and services that are given market preference. Given the developing Asian nations' rate of economic growth, Europe and Japan bilateral aid donations can well be seen as "investments" that promote their own products and services in these emerging markets.

U.S. AID & THE BUSINESS COMMUNITY

- As an example of a program that works, U.S. AID -- through its Asia-Environmental Partnership (U.S. AEP) program -- has taken tangible steps to work with the private sector to promote U.S. business and infrastructure interests in Asian markets. Although U.S. AEP does not fund infrastructure projects per se, it does provide (through its Environmental Infrastructure component) valuable assistance to U.S. firms seeking to establish and maintain long term market presence in the region. ACEC is one of the many partners that works with U.S. AEP to support this mission.

  Because U.S. AEP realizes that rapid urbanization in Asia has created widespread environmental challenges in the region, ACEC and AEP have established a joint program which mobilizes U.S. consulting engineering firms and environmental technologies to meet the challenges associated with the lack of municipal sewerage and solid waste facilities and bulk water supply shortages.

  ACEC's partnership with U.S. AEP has been a success. Several U.S. engineering firms, including Metcalf and Eddy, have benefitted from this relationship through the award of projects. One critical element that U.S. AEP's Environmental Infrastructure component provides to the U.S. consulting engineering industry is allowing U.S. firms to become familiar with potential clients and their specific needs. ACEC would be happy to make a more detailed list of U.S. firms that have benefitted from this program to the subcommittee for their review.

  Both U.S. AEP and ACEC are exploring ways to enlarge the scope of the mobilization program, with the proviso that such a program become a self-sustaining entity within two and a half years. U.S. AEP's strength lies in fostering innovative programs which allow the private sector, in conjunction with the U.S. government, to design solutions to meet the unique needs associated with market intelligence, market access and long term exposure in the region.

## CONCLUSION

U.S. AEP, in and of itself, is not a solution. It is only the beginning of one. ACEC believes that U.S. engineering firms can be very helpful in leveraging the export potential of U.S. business to Asia. One of the surest ways to bring these benefits directly to the U.S. economy is to assure a strong U.S. AID: a U.S. AID with a mission to integrate, promote and fund infrastructure projects as a critical element in this nation's geopolitical strategy. Initiatives such as the U.S. AEP become that much more effective because their missions are integrated into the fabric of U.S. AID's development mission. In this way, initiatives such as U.S. AEP are not perceived of as appendages, but rather enhancements to U.S. development and export interests.

Historically, U.S. foreign assistance has made its greatest impact in developing countries when it balances immediate humanitarian assistance while providing the infrastructure that sustains self-propelled economic growth. Consulting engineering firms are an instrument in this long term effort that can help provide solutions to some of the overarching problems

associated with rapid urbanization in Asian countries. These firms act as catalysts for export potential.

ACEC believes that the export competitiveness of a much larger segment of the U.S. private sector is directly tied to the success of the U.S consulting engineering sector. If the potential of Asia's emerging markets is to be more fully realized, the aggressive and coordinated assistance of U.S. government agencies such as U.S. AID and the U.S. Trade and Development Agency is crucial.

ACEC stands ready to support the Congress in its attempt to maximize -- in the face of a shrinking foreign assistance budget -- U.S. return on investments made through the U.S. foreign assistance program. Closing our export trade imbalances and creating U.S. jobs are at stake. The U.S. AID budget and activities are a very small investment with enormous returns for this nation. Thank you.

Testimony of

HENRIETTA HOLSMAN FORE

Senior Associate

The Center for Strategic and International Studies (CSIS)

Tuesday, July 23, 1996

House Committee on International Relations

Subcommittee on Asia and the Pacific

Mr. Chairman, Distinguished Members of the Subcommittee on Asia and the Pacific. Four years ago on the subject of U.S. foreign assistance in Asia I said: "The themes that run through our program in Asia are simple: encourage private enterprise, look after the environment, and educate families about health and well-being. But, in a new world, these issues are as important to the United States as they are to Asia—for as our world shrinks with satellite communication and high speed airplanes, it is as if our continents are touching. We must realize that we are dependent upon each other for peace, health and prosperity...." This is even more true today. We are in touch with more people in more countries on a minute-by-minute basis than ever before. There is an expectation to be in immediate visual or verbal contact with a person and with events as they are taking place.

There is a growing identity in Asia, as a region. It has been fostered by Asia's dramatic economic success and an interdependence based on regional trade, investment, communication and new political power. It can be seen in the vibrantness of regional associations like APEC and ASEAN. This Asian identity was recently seen as the Filipinos in their 50th Anniversary of independence from the United States, openly spoke of their growing sense of "Asian-ness" and what it could mean for them as a nation. Given the degree to which the United States is expanding its own identity to include a strong national interest in the Pacific Rim and in Asia as a whole we must renew our efforts to understand the Asia phenomenon; its history, its complex cultures, and the issues that shape the economic miracle of Asia.

Asia is one-half of the world's population, but in the U.S. foreign assistance budgets it is only 8.6% of the total budget. The good news is that there is a regional budget to follow this regionalizing trend, not just an international issue's budget. The bad news is that the Asia budget is shrinking at a time when we should be maintaining old ties and striking new partnerships. AID has extraordinary diverse, important contacts for U.S. interest. We are heading into an Asia Pacific century. Increasing our ties and contacts through Asia should be seen as strategic investments as it is for our colleagues in Japan with their strong annual $5.5 billion foreign assistance budget for Asia.

Throughout Asia we have seen very strong economic growth in the last decade. We have also seen Asia take major steps to strengthen and create open democratic political systems. Both of these trends are important to U.S. foreign policy and our broader U.S. interests. As a government we must question if we have allocated enough human and budgetary resources to support these trends, and if we are committing enough time to understand this massive Asian regional renaissance.

Part of the opportunities we face today and the problems we must overcome are rooted in the past. Since the inception U.S. economic assistance has been a multidimensional concept. It has been part of the solution to many of the problems faced by the United States for the past 50-some years.



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Its most recognizable configuration has been as a tool to fight the problems associated with poverty in the developing world. As such most people associate it with its humanitarian face. But world wide it has played an equally important roles as part of the U.S. response to security problems and to economic problems. The relationship between lack of economic opportunity and instability is real and has been recognized by successive Administrations as an issue that needs to be addressed as the U.S. supports increased security. It is also an issue of central importance to a strong U.S. international economic policy and foreign policy.

The relationship between a healthy growing world economy and our own economic prosperity seems even more relevant today than it did even a few short years ago. For many countries, U.S. trade and investment remains central to their economic health just as international trade and investment is central to the U.S. economic health.

In a post Soviet world, meeting the challenges of serious transitional issues has become a core element of both international security and U.S. foreign policy. Promoting global prosperity, better education, and creating jobs utilizing new technologies are battles for all nations as surely as are the battles to end terrorism, ethnic warfare, the flow of drugs and crime. The struggle for economic freedom, growth and opportunity is no less important than the struggle for democratic freedom. This yearning for economic growth leads many nations to look to the U.S. for help, since we are the leader of the largest economy in the world.

Much of our foreign economic assistance focuses on improving the quality of life of people around the world. It touches many facets of society: Education, Health, Population, Agriculture, Nutrition, Business, Law, Housing, Engineering, Environment, Property and Human Rights, Democracy and Disaster Relief. Human issues and quality of life issues are increasingly important in foreign policy. They are also important to us as a people, for with modern communications and transportation they know no boundaries and touch our lives in the United States.

While Asia has more people living in poverty than virtually the rest of the world, it is probably the most vibrant economic region of the world today. Take India as an example. It is a growing dynamic and vibrant economy. It has upwards of 250 million middle-class people. It still has, however, a massive problem with real poverty. It has not been able to control its unsustainable population growth rate. It is trying to deal with a massive AIDS epidemic. It is struggling with unheard of environmental problems born of the rapid urbanization of India.

We could describe similar scenarios in Pakistan, Indonesia, China and other Asian countries. The environment where economic dynamism and poverty related problems exist in such a tangled web argues strongly for the U.S. to remain involved and deepen its contact for both humanitarian and self-interest reasons. We can help shape the solutions to many of these problems and in doing so help shape the economic growth of the region. Economic growth is the first or second most powerful force in the development of an industrializing country. And it is fortunately one of the most beneficial forces for our U.S. interests.

Because Asia is essential to our strategic, economic, political, security and social interests, we need to redouble our efforts to focus on the allocation and flexibility of human and economic resources devoted to Asia. But we also need to look at all the creative ways of investing in the future. For example, we need to find ways to help the U.S. private sector to take the plunge on solving development issues with increased overseas trade and investment activities. They are an ideal partner for training, technology utilization, and business know-how. Both development and business are well served by international development projects. Programs like the USAEP, USTTI, ASEAN, and the U.S. Thai Partnership, all can instruct this effort. We should not let ourselves be trapped by old ways of doing business, particularly in Asia.

Asia has the flexibility to blend or co-finance public and private funds, to utilize grants, loans, guarantees, options and equity in useful combinations. It often has interwoven public and private sectors which can champion change, projects and institutions in a very directed and efficient manner. Yet the historic distinctions between public and private finance and policy roles makes it difficult for the U.S. to be a good partner. The U.S. should make an effort to overcome these rigidities.

In the meantime we should focus on finding local public and private champions and financiers, for the many worthy AID projects which are running out of AID funding and personnel time. American information and technology hold such promise for solving many of the world's problems. I believe we all realize that no government can finance the totality of the

effort, just as not business can finance the totality of the effort. It is an instance where each has a role and a partnership can achieve far more than either one.

We will not solve or even make modest progress on many of the world's most pressing transitional issues, unless we get to work on them at their source in Asia. Economic growth, environmental degradation, AIDS, drug trafficking, human rights abuse and many others have a uniquely Asian face. We can not solve these problems for Asians, but it is doubtful if they can solve them by themselves. U.S.-Asian Partnerships will be the key element in finding workable lasting solutions to these problems. When we begin a partnership and we must have willing partners in a country's government and private sectors, then we should stay to see our joint efforts are on a steady path. Mongolia is a case in point. It is not easy to achieve economic and democratic freedom, we have been working on it 200 years—Mongolia has been working on it 7 years. But they are succeeding. We should not be ending our program at this critical point in their transition. We should stay the course.

In addition to supporting humanitarian, economic and transnational concerns of U.S. foreign policy, our economic assistance programs have also been a key feature of U.S. security initiatives in Asia for many years. In a region where the United States has gone to war three times in the last 60 years, security concerns remain high on the political and diplomatic agenda. Currently the AID program in Cambodia is a good example of where our development and security concerns intersect. In response AID has mounted an effective program which is helping to build a more democratic society while fighting the appalling ravages of warfare. It is

important that the U.S. maintain the capacity to respond to like security situations in Asia in the future. Asia is just too important to our national self-interest to ignore or sell short.

Over the past decades we have turned to AID to meet the important challenges mentioned above. AID had developed an effective overseas operational structure designed to meet these requirements. It is essential to AID. The day-to-day exchanges in AID's overseas missions are invaluable. Trying to run U.S. foreign policy or economic assistance from Washington would be impractical. The overseas presence has allowed AID to carry out its mission exceedingly well. As an example, in Indonesia one person in one ministry has done more to help the economy's growth and development, and I might add, create opportunities for U.S. business, than most Americans know. At one level, U.S. foreign policy is a dialogue among cultures on a wide variety of issues. AID does this well. At another level it is providing the avenues so U.S. ideas, technologies, business, and approaches to societal values can establish their own links and partnerships. Again AID does this very well. To undertake projects in the developing world takes political, economic, and social understanding of what works. AID has developed an invaluable and clear-eyed recognition about local commitment and capacity. It must not be lost.

If we can see important humanitarian, transnational, competitive, economic, political and security purposes for foreign assistance then we should, with AID in the lead, maintain a strong economic program. If we see problems AID should be focusing on, then we need to set a goal and ask AID what regulations, processes, and budgets are needed to solve them. Simply cutting

the funding for Asia is cutting off a valuable arm of U.S. foreign policy in the region. The Congressional funding models that have been the most flexible and most effective are the SEED Funds for Eastern Europe and the Africa Development Fund. It would be worthwhile setting up a similarly flexible arrangement for Asia. Greater flexibility in terms of financial instruments and the ability to work with U.S. business and the private sector are exactly what the Asian region needs now.

Another area where we could take a major step forward is reconsidering the overall U.S. Government structure for international programs and agencies. We should look at merging the U.S. international economic interest agencies, under a lead agency. This includes the Department of Commerce/International Trade Administration, Export Import Bank, Overseas Private Investment Corporation, Trade Development Agency, and parts of the Agency for International Development, Department of State, Department of Energy, Environmental Protection Agency and Treasury to name a few. Informational and financial resources could be merged to create strong synergies. It is what I like about the construct of US-Asia Environmental Partnership. Its focus was to enable 28 government agencies and programs to work together. Washington is a maze for most Americans. This is a chance to streamline forms, procedures, and agencies. If you asked for a competitiveness rating for U.S. international economic agencies I believe the U.S. would not fare well compared with the British, Germans or Japanese. We do not offer effective services to U.S. citizens and entities nearly commensurate with the world's leading economy. We must offer a better, simpler, unified set of informational and financial services.

In response to your questions about trends, let me suggest a few opportunities:

1. The United States needs to clearly define its goals for foreign economic assistance. As a nation we should not enter the 21st century without this very powerful foreign policy tool readily available to meet new challenges.

2. With the dawn of the Asia Pacific Century we are at a critical juncture for multidimensional engagement in the region. It is time for a renewed commitment to foreign economic assistance to Asia, so the U.S. will be able to build on old and forge new, strong, mutually beneficial ties and working friendships throughout Asia. We should move closer to the Japanese, who spend 57% of their foreign assistance budget in Asia.

3. There is a growing identity in Asia, as a region. It has been fostered by Asia's dramatic economic success and an interdependence based on regional trade, investment, communication and new political power. It can be seen in the vibrantness of regional associations like APEC and ASEAN. Given the degree to which the United States is expanding its own identity to include a strong national interest in the Pacific Rim and in Asia as a whole we must renew our efforts to understand the Asia phenomenon; its history, its complex cultures, and the issues that shape the economic miracle of Asia.

4. When the Administration and Congress engage in developing comprehensive foreign policy initiatives in Asia we should look creatively at what role economic assistance should and must play. A multidimensional comprehensive engagement policy toward China should include foreign assistance. As such the Legislative impediments to foreign assistance under the Foreign Assistance Act should be pragmatically reassessed in light of the far more urgent need of a thoughtful comprehensive China policy. With different characteristics, this same need and urgency applies to the opening of foreign assistance to Vietnam.

5. No development problem is so large that we should work on it alone. An eager, committed partner is an absolute requirement. It does not always have to be a government entity. Private Voluntary Organizations (PVO's) and Non-Governmental Organizations (NGO's), and private business all can fill this role. But some entity must be present locally to take ownership with time and funds to render it sustainable before foreign assistance resources have been completely spent. In the Asia portfolio, the majority of the programs and projects should have the local leadership and financial sources to be locally self-sufficient without U.S. foreign assistance. The more the Asia portfolio focuses on the private sector and economic growth, the more easily this financially sustainable objective can be met.

6. AID should be encouraged to continue its productive relationships with PVO's, NGO's, and U.S. business. While these organizations have all been effective implementors of AID programs, they have also brought their own resources to solve problems in the developing world. In addition to working with the U.S. government on its agenda, each of these groups

have their own goals and objectives which should be encouraged and supported. For example, environmental NGO's should be encouraged to go beyond more narrowly focused official U.S. efforts to work on global environmental problems. Virtually every U.S. company should be encouraged to invest and trade internationally. The U.S. Government should set its role as an investor and facilitator, not just a donor to projects.

7. Re-look at the ability to privatize AID functions, projects and programs. Programs like the U.S. Thai Partnership, the U.S. Asia Environmental Partnership and projects like The Asia Institute of Management a private institution of higher learning which got its start with help from AID, Harvard University and the private sector of the Philippines and the U.S. are all good Asian examples of how to do business in the years to come.

8. We should reconsider the U.S. Government structure for international programs and agencies. We should consider merging U.S. international economic interest agencies under one lead agency. This is a chance to streamline forms, procedures and agencies. We offer ineffective services to U.S. citizens and entities who work internationally, largely due an ineffective structure. We should not rest until we can offer a better, simpler, unified set of informational and financial services to the U.S. taxpayers and businesses.

9. U.S. corporations have cut 30-70% from the time of many of their processes. AID should undertake a serious time management restructuring. Rapid response and timing is a critical element of foreign policy.

10. In addition AID should set a corporate style of brevity: short briefings and short reports. Use computer and telecommunications technology. Continue the opening of AID unclassified information so that it can be accessed by all in the executive and legislative branches.

11. From time to time there has been consideration of the World Bank style of organization: all staff in Washington, travelling out to countries to assess and oversee projects at all stages. I do not see this as a useful model for the U.S. foreign assistance program. The overseas structure of AID is essential. The day-to-day exchanges in AID's overseas missions are invaluable. Trying to run U.S. foreign policy or economic assistance from inside the beltway in Washington would be insensitive and short-sighted.

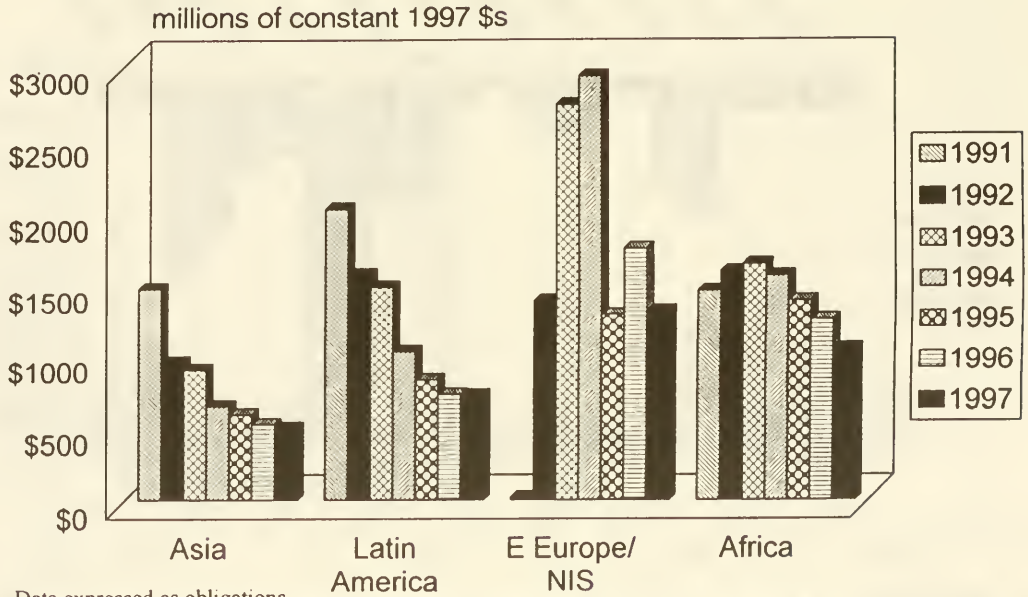
12. Once these goals are set the Congress should refrain from earmarking economic assistance or restricting its use in ways that make it less effective as a foreign policy tool. Flexibility is especially important in Asia. The SEED Funds and Africa Development Funds are good examples of flexibility.

13. As the 20th century draws to a close progress on solving development issues has many leaders. A significant number of those are in Asia. We have as much to learn from the Asians as we have to give to them. The 21st century will be a time to deepen our involvement with our Asian partners not back way from them. If we want to help solve the major

transnational issues that face us today we must remain in Asia working on these programs and learning from our Asian partners.

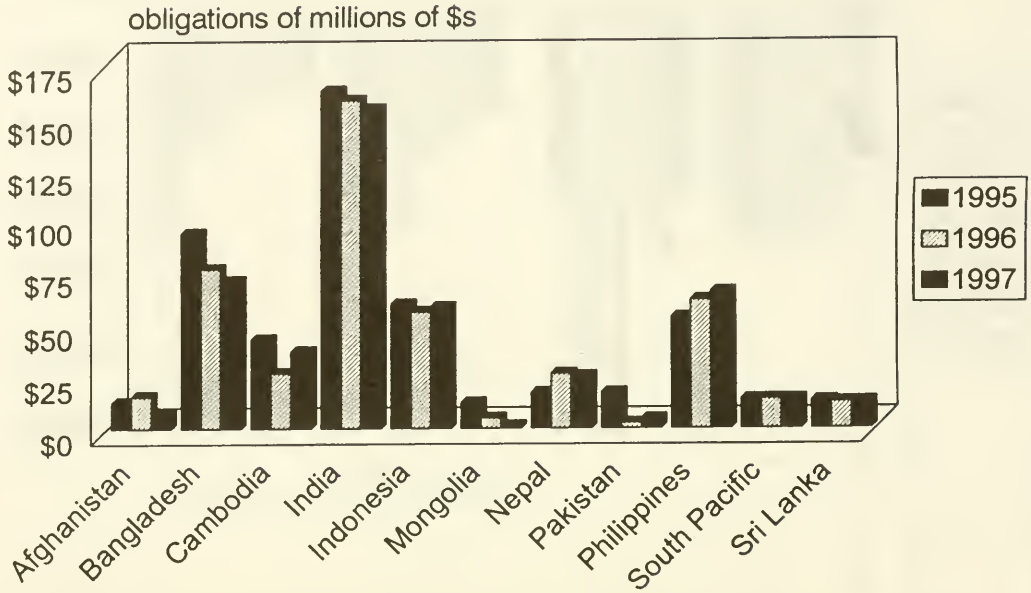
14. As an important part of the U.S. foreign policy network, every Subcommittee Member and staff person should travel and see the AID programs and projects in Asia.

# U.S. Bilateral Aid, FY1991 - FY1997




Data expressed as obligations.
Source: USAID and CRS calculations.
1996 figures are estimates; 1997 figures are proposed amounts.

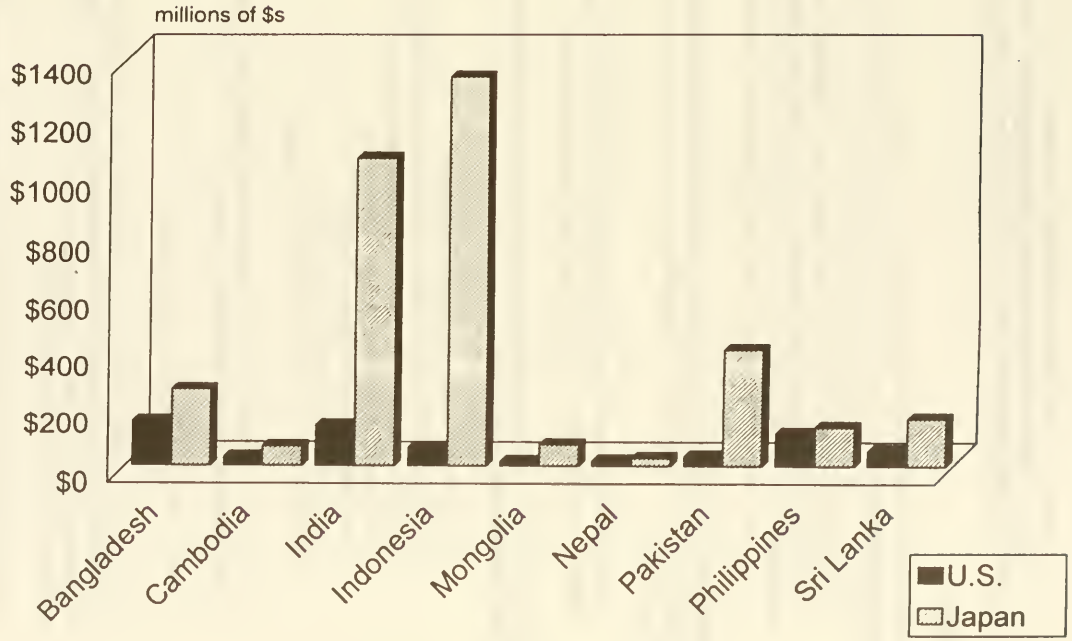
# U.S. Aid to Selected Asian Countries




Source: USAID
1996 figures are estimates; 1997 figures are proposed amounts.

## U.S. and Japanese Development Aid to Selected Asian Countries Compared

(1994 gross disbursements of loans and grants)




Source: OECD

**QUESTIONS FOR THE RECORD**
**ASIA AND THE PACIFIC SUBCOMMITTEE**
**JULY 23, 1996, HEARING ON U.S. FOREIGN ASSISTANCE IN ASIA**

**Bereuter**

1. What efforts has AID made to facilitate cooperation among Bangladesh, India, and Nepal on the issue of water resources?

-- Has AID been involved in water resource issues in any of these three countries?
-- Have any feasibility studies been conducted by AID or other organizations on this issue?
-- Are other donor countries playing a role in this area?

2. What foreign assistance has AID and other Federal government agencies provided to China (government entities, non-governmental organizations, or individuals) directly or indirectly since January of 1995?

-- Does AID have plans for any direct or indirect foreign assistance to China (government entities, non-governmental organizations, or individuals) in the future?

3. Please provide a detailed balance sheet for the United States Asia-Environmental Partnership (US-AEP) that indicates the following:

AID contributions to program since inception
Other Federal Government Agency contributions since inception (for each)
Matching contributions from non-governmental organizations
Total estimated administrative costs since inception
Total program expenditures since inception
Total expenditures for travel since inception
Recent recipients (last year) of NASDA travel grants

a. Please explain whether the US-AEP has reached its original goals for generating contributions from non-governmental organizations.

b. Please explain the following apparent discrepancy:

In a memo from Suzanne Palmieri (AID congressional affairs) to Dan Martz (Professional Staff Asia and the Pacific Subcommittee), sent April 22, 1996, it was stated that the "U.S.-AEP ... has facilitated the transfer of approximately $417 million in U.S. goods and services to Asia."

In Assistant Administrator Carpenter's July 23, 1996 testimony, she stated that "the U.S.-Asian Environment Partnership (US-AEP) program has generated over $800 million in sales of U.S. environmental goods and services in Asia ...."

c. Given the remarkable success the US-AEP has enjoyed in helping promote environmental exports for U.S. businesses, explain whether it would be feasible and/or appropriate to require reimbursement for travel and other expenses provided by US-AEP to U.S. companies who, in turn, export goods and services to Asia.

**Berman**

1. With the OMB and Congressionally-imposed cuts on AID's program resulting in mission closings throughout Asia, what role can NGOs such as the Asia Foundation play in maintaining American influence in the region?

-- Are there any countries or program areas where you would like to see NGOs, such as the Asia Foundation, more active?

WATER RESOURCES

Mr. Bereuter: What efforts has USAID made to facilitate cooperation among Bangladesh, India, and Nepal on the issue of water resources?

Answer: USAID has no direct assistance efforts to facilitate the resolution of existing water resource issues among the three nations. No such assistance has been requested by any of the concerned governments.

Mr. Bereuter: Has USAID been involved in water resource issues in any of these three countries?

Answer: Yes. During the period 1989-1994, USAID/Bangladesh and USAID/Washington both assisted the Bangladesh Government in strengthening programs for effective water management planning in that country as part of the Government of Bangladesh's overall flood control activities. The Bangladesh Mission also supports several NGOs working in water-related issues, including the Ford Foundation, which recently assisted a group of private scientists in a series of studies of regional water-sharing problems among India, Bangladesh and Nepal. This was strictly a private sector initiative, without the support or participation of any of the three concerned governments.

In the past, USAID had a comprehensive irrigation and water resources institutional development program in

India which covered all major (seventeen) Indian states.

The "Water Resources Management and Training Project" established Water and Land Management Institutions (WALMI) in each of the major states for providing in-service training to its irrigation-related field officials and technicians. The project also trained over 1,200 Indian irrigation/water sector professionals in selected U.S. institutions dealing with management, efficient operations and development of water resources using sophisticated technologies.

Mr. Bereuter: Have any feasibility studies been conducted by USAID or other organizations on this issue?

Answer: We know of no feasibility studies, per se, sponsored by USAID or other donors on the issue of regional cooperation, other than the more limited work performed under Ford Foundation sponsorship mentioned in the answer to the above question about feasibility studies. USAID/Washington's centrally-funded project "Irrigation Support Project for Asia and the Near East" (ISPAN) conducted an independent assessment titled "Eastern Waters Study" on the Strategies to Manage Flood and Drought in the Ganges-Brahmaputra Basin (covering India, Nepal, and Bangladesh). This was in 1988. However, the project did not encompass the issue of cooperation among the three countries.

USAID has not conducted or financed any feasibility studies or plans for the development of water-related infrastructure in these countries. However, through the ISPAN mechanism, USAID/Washington and the Bangladesh Mission did directly support important studies relating to flood control in Bangladesh in the following disciplines--Geographic Information Systems (GIS); Environment; Flood Proofing Measures; and Response Mechanisms. This support was provided for a five-year period, from 1989-1994.

We are pursuing, with the World Bank and Asian Development Bank, your request for information on and/or copies of any infrastructure plans/designs in the region that may have been funded by multilateral organizations.

Mr. Bereuter: Are other donor countries playing a role in this area?

Answer: We are not aware of any assistance from other donor nations in promoting cooperation among India, Bangladesh and Nepal on water issues.

U.S. FOREIGN ASSISTANCE TO CHINA

Mr. Bereuter: What foreign assistance have USAID and other Federal government agencies provided to China (government entities, non-governmental organizations, or individuals) directly or indirectly since January of 1995?

-- Does USAID have plans for any direct or indirect foreign assistance to China (government entities, non-governmental organizations, or individuals) in the future?

Answer: Legislative restrictions and policy constraints have prevented USAID from planning or implementing assistance to China since 1995, with the exception of funds provided through the Office of Foreign Disaster Assistance (OFDA), which are available notwithstanding any other provision of the law. OFDA has provided $578,988 for relief from earthquakes, cold weather and flood emergencies. In addition, USAID's American Schools and Hospitals Abroad (ASHA) program has provided $618,000 in FY 1995 to two American organizations with activities in China, Project Hope and Johns Hopkins University. In FY 1996, $600,000 is proposed for Project Hope.

The State Department reports that the following organizations have also provided assistance to China since January 1995, under provisions of the Foreign Operations Appropriations Act:

Peace Corps: $1.3 million for volunteers in Sichuan province.

Export-Import Bank: $1.5 billion in credits and loan guarantees.

State Department: $56,000 for drug interdiction programs.

There are no P.L. 480 Title II and III programs in China.

USAID does not have plans for any direct or indirect foreign assistance to China in the future, given legislative restrictions and policy constraints. However, OFDA's disaster assistance could be available as warranted. Since ASHA supports U.S. institutions abroad, funding is not considered foreign assistance to the countries in which they operate.

UNITED STATES-ASIA ENVIRONMENTAL PARTNERSHIP

Mr. Bereuter: Please provide a detailed balance sheet for the United States-Asia Environmental Partnership (US-AEP)that indicates the following:

i. USAID contributions to program since inception.
ii. Other Federal Government Agency contributions since inception (for each).
iii. Matching contributions from non-governmental organizations.
iv. Total estimated administrative costs since inception
v. Total program expenditures since inception.
vi. Total expenditures for travel since inception
vii. Recent recipients (last year) of the NASDA (sic) travel grants.

a. Please explain whether the US-AEP has reached its original goals for generating contributions from non-governmental organizations (NGOs).

b. Please explain the following discrepancy:

In a memo from Suzanne Palmieri (USAID congressional affairs) to Dan Martz (Professional Staff Asia and Pacific Subcommittee), sent April 22, 1996, it was stated that the "US-AEP ... has facilitated the transfer of approximately $417 million in U.S. goods and services to Asia."

In Assistant Administrator Carpenter's July 23, 1996 testimony, she stated that "the U.S.-Asia Environmental Partnership (US-AEP) program has generated over $800 million in sales of U.S. environmental goods and services in Asia..."

c. Given the remarkable success the US-AEP has enjoyed in helping promote environmental exports for U.S. businesses, explain whether it would be feasible and/or appropriate to require reimbursement for travel and other expenses provided by the US-AEP to U.S. companies who, in turn, export goods and services to Asia.

Answer: The United States-Asia Environmental Partnership (US-AEP) publishes an Annual Report that includes a financial operating statement. The report for Calendar

Year(CY)1995 (attachment A) provides the basis for the information requested above. Please see pages 18, 19, and 20, of the Report for all the financial data referred to in this reply. Also, please refer to the Notes to Financial Statements on page 20 for further explanation of the data in the tables.

i. USAID contributions to program since inception. The actual obligation of funds under the US-AEP through FY1995 equals $75,966,615. The obligations for FY1996 are an estimated additional $18.3 million, bringing the total estimated obligations to approximately $94.3 million for the first five years of operation compared with the initial pledge of $100 million over five years. These contributions are labeled "obligations" in the Annual Report (see attachment A, page 18).

ii. Other Federal Government Agency contributions since inception (for each). Other Federal Government Agencies have contributed $5,538,449 (see attachment A, page 19).

iii. Matching contributions from non-governmental organizations. Non-governmental organizations invested $28,560,348 (see attachment A, page 19).

iv. Total estimated administrative costs since

inception. Based on a total $169,972,484 of all investments from all partners, estimated planning, programming and administration costs are $12,893,840, or 7.6% (see attachment A, page 19).

v. Total program expenditures since inception. The total program expenditures for the US-AEP since inception equals $59,133,005. This is the total of the first column in Statement A and the USAID/Center for Trade and Investment Services investment of $600,000 in the second column of Statement A. USAID expenditures are labeled "investments" in the financial statement (see attachment A, pages 19 and 20).

vi. Total expenditures for travel since inception. Total travel costs for the program since the beginning are estimated at $5.1 million. This includes travel associated with all fellowships, exchanges, training, grants, and administration. Often, partners share in the travel expenses. For instance, in CY1995 US-AEP paid for 23% of travel associated with business development while partner entities carried 77% of the travel expenses.

vii. Recent recipients (last year) of the NASDA travel grants. The National Association of State Development Agencies (NASDA) provides challenge grants to

applicants who are qualified by their state development agency, and often in partnership with local businesses and appropriate local NGOs. These grants are designed to demonstrate U.S. environmental technologies in Asia and, thereby, stimulate small and medium sized environmental businesses to enter the Asian marketplace. NASDA grants do not exceed $20,000 each and are matched by the grantees at no less than two-to-one. Thus a company may be eligible for as much as $20,000 in US-AEP grant money if it contributes at least $40,000. In addition, no more than $5,000 of the federal grant may be spent on actual travel. Thus, it is a misnomer to characterize these grants as travel grants; they are for developing environmental markets. Attached is a list of all NASDA grants through FY1995 (see attachment B).

a. There never was an explicit goal for the contribution of non-governmental organizations (NGOs). The program goal was to mobilize the U.S. and Asian businesses, governments, and NGOs to contribute a total of four times the USAID contribution, which in turn would generate a five-to-ten fold increase in sales of U.S. environmental goods and services. Looking at the figures from the CY1995 Annual Report and comparing the total US-AEP expenditures ($58.5 million) to the investment of all other partners ($111.4 million),

other contributions have totaled just under twice the US-AEP contribution which is well below our expectations. This has, however, generated almost a five-fold increase in sales ($807 million) compared to total investment ($170 million) which exceeds our planned expectations for sales at that investment level (see attachment A, page 20).

b. The April 22, 1996 letter from Ms. Palmieri was based on financial data available in April 1996, namely the CY1994 US-AEP Annual Report. The July 23, 1996, testimony of Assistant Administrator Carpenter was based on the CY1995 US-AEP Annual Report financial statement published in May 1996 (attachment A). The difference reflects sales during CY1995 of $390 million and illustrates the growing rate of payoff for the program in the most recent year.

c. The grant programs of the US-AEP are designed to help small-to-medium sized U.S. businesses overcome the obstacles of limited Asian market experience and knowledge, a lack of U.S. product awareness among Asian customers, and the limited ability to physically meet with Asian customers to establish lasting and productive business relationships. These challenge grants are matched at least two-to-one by the grantees, the US-AEP never awards more than $20,000 to a grantee

or a group of grantees acting together, and the portion allowed for travel cannot exceed $5,000.

Some agencies, like the Trade and Development Agency (TDA), have required reimbursement for feasibility studies when a grantee is successful in landing a major project resulting from that study. However, these agencies tend to bestow fewer grants and for significantly larger amounts (on the order of $500,000) than the US-AEP. Moreover, the TDA feasibility studies are usually well defined projects with a specific end result. The US-AEP grants are more numerous, are for less than $20,000, and, frequently, the ultimate success may not be as apparent. These grants are designed to stimulate new-to-market firms with less than $30 million in annual sales to enter the Asian marketplace and demonstrate their products or services. It is not always known beforehand what their success will be or when success can be determined.

The current level of monitoring by the US-AEP is deemed sufficient to document the success of the program without placing an undue burden on the small and medium sized companies to track their costs and results. Each calendar year the US-AEP surveys grant recipients to determine whether they have sold any goods or services, what the amount of any confirmed sale is, and whether

the program can use the company proprietary information for program promotional purposes. These data are used in the US-AEP Annual Report.

In short, these grants are designed to leverage contributions from the grantees, to generate new trade and investment opportunities for U.S. companies, and to encourage broad sharing of U.S. environmental technology. Requiring grantees to track and repay travel costs, after they have recouped their initial investment, could be a disincentive to apply for the grants, and the paperwork for reimbursement would add to the US-AEP overhead without generating significant added benefits or funds.

ATTACHMENT A

# the bottom line: a new partnership that works

UNITED STATES-ASIA

ENVIRONMENTAL

PARTNERSHIP

1995 ANNUAL REPORT

US-AEP

A LETTER

FROM THE ADMINISTRATOR OF

THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

# dear partners and friends:

I am happy to present the 1995 Annual Report for the United States-Asia Environmental Partnership (US-AEP). Designed and led by the U.S. Agency for International Development, US-AEP successfully concluded another year of fostering an Asian clean revolution.

US-AEP has concentrated on building long-term partnerships among governments, businesses, and nongovernmental organizations in Asia and the United States to help create incentives, build private and public capabilities, and transfer technology that will improve Asian environmental conditions in the industrial sectors. The urban environmental services sector is enhanced as US-AEP seeks to bring U.S. experience, technology, and practice to the provision of these services. These efforts have met with considerable success.

This year US-AEP added a new Office of Technology Cooperation in Sri Lanka, supported hundreds of business and professional exchanges between the United States and Asia, and facilitated the transfer of significant technology resulting in improved environmental conditions in Asia and in increased sales for U.S. firms. In addition, US-AEP programs were refined and enhanced to meet the challenges of the Asian environment more effectively.

This ground-breaking effort—targeting the expertise of U.S. government agencies, U.S. states, more than 3,000 private sector companies, and many nongovernmental organizations—continues to change and adapt to new concerns critical to sustainable development in Asia.

In 1996, US-AEP will continue the tradition of having Asian, Pacific Island, and American stakeholders actively work together to protect the common future.

Sincerely,

J. Brian Atwood

# A Successful Experiment

BALANCING THE FUTURES OF ASIA, THE UNITED STATES, THE GLOBAL ENVIRONMENT, AND ECONOMIC DEVELOPMENT

Industrial development in Asia and the Pacific will profoundly affect the future of the global environment. Already, the region's environmental degradation arouses deep concern. Its carbon emissions may change the world's climate. Its biological endowment is imperiled.

Meanwhile, rates of economic growth surpass those of other regions by large margins. Asia's fabled "industrial miracle" has become the model for development throughout the world; its delivery of prosperity is widely envied. Yet a rising tide of pollutants threatens the logic and appeal of the model.

Within this threat, however, lies the seed of an opportunity. In spite of its astounding performance, Asian industrial development is still young. Indonesia, for example, has yet to install 85 percent of the industrial capacity it will have by 2010. New investment will soon overwhelm previous investments. Asia enjoys a once-in-a-lifetime opportunity to pursue industrialization from a clean foundation and avoid the costs of remediation that plague industrialized countries. Asia's environmental destiny still hangs in the balance. Asia still has a chance to create a "Clean Revolution."

The issue is sustainability. Some Asian countries have captured key ingredients: rapid growth in economic well-being; significant reductions in poverty; and relatively equitable distribution of wealth. If Asia now incorporates clean production within its engine of growth, a new model of sustainable development will be available for emulation everywhere.

Most advanced economies are anchored in aging industries and infrastructures that require expensive pollution-control and remediation technologies to manage the environmental consequences of modern economies. Other countries have not yet achieved a level of development that requires grappling with those consequences. Much of Asia, however, is capable of making a seamless transition. Some countries already have an informed and concerned citizenry; others, functioning regulations and enforcement mechanisms; and a few, sophisticated responses to the emerging pressures to consider environmental concerns as strategic factors in international business and trade.

To move toward cleaner production is to introduce environmental factors into the mainstream of industrial policy. It entails the mobilizing of an entire arsenal of government policies, business incentives, and community resources to transform industrial behavior. It means taking the quality of the environment as a culminating signature of a nation's industrial culture. And it involves removing all impediments to the efficient adoption of best practices and technologies.

Two generations ago, the Green Revolution in Asia became an agricultural model for the rest of the world. The key elements of cleaner production are broadly reflective of the factors that went into the making of the Green Revolution: total commitment from the highest levels of governance, comprehensive application of science and technology, wide dissemination of useful information; and public and private incentives for the recasting of a fundamental sector.

With Asia approaching an industrial transformation and the United States earning praise for its expertise in environmental management, the time has arrived for a new model of cooperative development in Asia, one that

will demonstrate the designing and installing of a cleaner and more efficient regime for an industrial economy. In other words, the time is ripe to repeat the success of a previous partnership between the United States and Asia, the one that brought about the Green Revolution.

The U.S. Agency for International Development (USAID) is taking the initiative in creating a new partnership to promote cleaner systems of production in Asia. This alliance rests on a commitment to sustainable development. It also relies on the strength of the American environmental community, the largest and most skilled aggregation of relevant experience, technology, and practice in the world.

Change will come most rapidly in the high-growth economies of East Asia. The countries in this sub-region, partly supported by their USAID-founded institutions, are already moving toward clean production. Partnerships in East Asia offer the greatest promise for establishing a new Asian model of development.

The United States-Asia Environmental Partnership (US-AEP) was created to take advantage of this window of opportunity. Founded in 1992 as a Presidential Initiative, US-AEP operates under the leadership of USAID, which has, thus far, authorized core funding of more than $130 million. Other partners — American and Asian individuals, nonprofit organizations, private businesses, and government agencies—augment the core funding with cash and in-kind contributions that could reach hundreds of millions of dollars. These investments could generate billions of dollars through direct sales, joint ventures, and licensing agreements. Given its early success, the US-AEP experiment suggests itself as a contemporary model for continuing America's historical engagement with the development of countries that contain 50 percent of the world's population and many of its most dynamic economies.

From its very inception, US-AEP has experimented with a large inventory of tools and instruments, including exchange programs that enrich the experience of environmental professionals and business managers, incentive grants that encourage small American companies to explore Asian markets for environmental technologies, and streamlined workshops that explain the nuances of working in Asia. In 1995, US-AEP decided to target the program's most productive activities on assisting Asian countries in the making of a Clean Revolution.

The new strategy focuses US-AEP's resources on industrial development and the environmental infrastructure of urban areas. With the agricultural transformation nearly complete, industry is now expected to generate enough work and wealth to satisfy the rising expectations of Asia's burgeoning populations. Cleaner production in industry, coupled with a full-scale attack on the rising toxicity of the region's megacities, will relieve pressure on rural areas and natural resources. Success in the industrial and urban sectors will also improve the prospects for sustainable development and more rewarding lives.

US-AEP is now organized around three major components: Clean Technology and Environmental Management (CTEM), Environmental Infrastructure in Urban Areas (EIU), and a Framework of Policies, Constituencies, and Public Awareness for sustaining clean production. A newly strengthened Environmental Exchange Program (EEP) interweaves itself with the other components and helps the ensemble become greater than the sum of its parts.

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# CTEM: clean technology and environmental management

CTEM lies at the core of the new strategy. Designed to improve operating efficiency and environmental performance, it concentrates resources in three complementary spheres: the incentives that persuade companies to refine practices, the capacity of businesses to respond to inducements, and the transfer of technology that takes advantage of incentives and capacities within a given business, sector, or country.

Tools are varied: assistance from US-AEP Technology Representatives throughout Asia; on-site engineering expertise in the latest industrial processes; educational and professional exchanges; identification of opportunities for transferring technology that are immediately distributed to 3,500 American companies through the Environmental Technology Network for Asia (ETNA); grants to encourage small and medium-sized American firms to explore Asian markets and Asian businesses and nongovernmental organizations (NGOs) to collaborate; and assistance for conferences on critical issues and demonstrations of equipment and expertise.

To expand incentives, US-AEP clusters an array of activities around the shaping of public policies, business practices, and community behaviors. The development and dissemination of public policy is facilitated by bringing together key players and experts and providing technical assistance to address specific problems. The adoption of voluntary standards for environmental management is emphasized through exchanges, training, and consultations. The effects of financial institutions and lending practices and the influence of NGOs are also underscored.

To increase capacity, US-AEP works closely with businesses, associations, and professions in both Asia and the United States. Under US-AEP auspices, Asian organizations that bring together industry, academia, and government to promote clean production are strengthened by partnerships with similar organizations in the United States. Industrial sectors also find common ground. In chemicals and textiles, US-AEP sponsors improvements tailored to the configurations of each sector. Expertise also reaches Asian businesses through US-AEP's alliances with profes

sional organizations and individual professionals, such as architects, engineers, and builders, who occupy pivotal positions and whose influence reverberates throughout the industrial regime.

Transferring a technology, along with its accompanying body of experience and practice, raises basic questions. What are the benefits? Who can supply it? Where should it be deployed? USAEP provides vehicles for answering such questions: information centers in three Asian locations; technical experts stationed throughout Asia; incentive grants administered by the National Association of State Development Agencies (NASDA) and the Council of State Governments (CSG); and a continuous flow of professional exchanges. Dissemination of crucial information strengthens business-to-business and industry-to-industry partnerships.

WATER [illegible]

## CTEM: MOVING TOWARD CLEAN PRODUCTION

**Saving Money with Clean Technology.** USAEP helped introduce wastewater pre-treatment in the Philippines through its promotion of cavitation air flotation (CAF) technology. CAF, an energy-efficient alternative developed by Hydrokal of California, addresses wastewater treatment in a logical and cost-effective way—by reducing the volume that will need more expensive treatment later in the production process.

USAEP supported a CAF demonstration unit in Manila during 1994 and 1995. Subsequently, CTEM helped coordinate demonstrations and seminars with local companies throughout greater Manila. The technology has been received with enthusiasm. Pepsi Cola Far East Trade Development Company is the first company to use the CAF technology as part of a turn-key waste treatment project. Other companies are considering CAF technology as a cost-effective means of upgrading facilities to meet tougher standards. Some $317,000 in CAF technology has been sold in the Philippines since its launching.

**Thai Firms Find U.S. Partners for Analysis, Instrumentation.** CTEM supports institutions that encourage the shift toward clean production. In Thailand, inspection and analytical services are essential to the setting of standards and enforcing of regulations. The Thai Board of Investments encourages joint ventures with American firms to provide such services.

Two business groups, Thai Patana and Oregon Pacific, have responded to the encouragement. After exploratory meetings in both countries, arranged through US-AEP, the two firms incorporated as the Patana Pacific Group. The partnership saw $1 million in sales of pollution prevention and environmental equipment in 1995. The partners are now committed to marketing projects that increase industrial efficiency, reduce wastes, and improve the environment while locking in profitability for Thai companies.

**Audits, Exchanges Whet Asian Markets for U.S. Clean Technologies.** Waste audits and environmental management systems are new in Asia. In conducting their first waste audits, Filipino Pipe and Foundry Corporation (FPFC) in the Philippines and River Kwai International Ltd. (RKI) in Thailand uncovered numerous ways to reduce waste, incorporate less hazardous processes into basic practices, and achieve higher productivity while using fewer resources.

FPFC, manufacturer of cast iron pipes, reduced solid wastes by 109 tons a year after implementing recommendations of a waste reduction assessment conducted by US-AEP in 1994. FPFC realized annual savings of $55,600 by mixing conservation and good-housekeeping practices with recycling and changes in production processes and equipment. In May 1995, FPFC participated in US-AEP's Environmental Business Exchange program, traveling to the United States to observe clean production in various iron and steel mills. Subsequently, FPFC raised its investment in technologies for cleaner production from $15,000 in 1994 to $540,000 in 1995.

RKI, a corn exporter, has converted 80 metric tons per day of waste husks into revenue. The waste found a market as animal fodder among farmers and feed millers. The dried, unprocessed cobs sell for the equivalent of $640 a day. RKI awaits further market response before purchasing American machinery to process bulk waste. The audit has led to investments of $500,000 in American de-huskers, autoclaves, and food conveyors.

Many companies in key sectors—iron and steel, food processing, cement, pulp and paper, metal finishing—have participated in waste reduction assessments and tours conducted by US-AEP through the Environmental Exchange Program (EEP). Their conversion to cleaner production supports a market in environmental equipment worth $2.5 million in 1995, a figure that does not include pending arrangements with U.S. suppliers. The Filipino market for environmental technologies in iron and steel alone will reach $1 billion over the next five years.

# environmental infrastructure for urban areas

New infrastructure spending, in some estimates amounting to more than $1 trillion, will soon be disbursed to meet the accelerating demands of Asian economies. Governments in the region are pondering the imminent construction of power generation plants, roads, high-speed rail links, harbors, airports, water supply and sewage systems, telecommunications systems—and even entirely new cities. Given this breathtaking scale, USAEP staff decided in 1995 to review all its activities that provide infrastructure services for urban jurisdictions.

While tightening its focus, USAEP also decided to maintain a regional presence by continuing its support for a Commercial Environmental Specialist based at the Asia Development Bank (ADB). In 1995, this office helped open to U.S. technology consultants a $3.2 million annual market for technical assistance and planning grants.

In Thailand and Indonesia, USAEP Urban Infrastructure Representatives targeted the need to create a proper investment climate for water supply, wastewater, solid waste, and hazardous waste projects at the municipal level. USAEP worked with USAID missions to structure a viable environment for public projects, collaborating on the sponsorship of technical workshops on privatization for municipal officials through the Institute for Public-Private Partnerships and the Center for Financial Engineering in Development. As a result, municipalities are better equipped to develop and use external studies on the effects of privatization.

USAEP staff in the United States supported the Asian initiatives by mobilizing business interests, developing financial scenarios, and finding proper matches for various proposals. In September USAEP and the American Consulting Engineers Council (ACEC) hosted an infrastructure workshop with experts from Asia who analyzed privatization schemes for Thailand, Indonesia, Malaysia, and the Philippines. The workshop launched a discourse on Asian opportunities among the American participants—engineers, developers, equipment suppliers, investors, financial experts—who normally have few opportunities to discuss common interests.

US-AEP also joined with ACEC to create a direct link to the latter's 5,500 members, enabling US-AEP to benefit from the organization's technical and institutional expertise. During the year, ACEC evaluated project leads from US-AEP overseas representatives and then matched them appropriately. This process identified seven Asian projects attractive enough to persuade ACEC members to begin discussions with potential Asian partners.

US-AEP AT WORK ON ENVIRONMENTAL INFRASTRUCTURE

**New York Treatment Plant Receives First Lady of the Philippines.** The First Lady of the Philippines, Amelita Ramos, took advantage of the celebrations surrounding the 50th Anniversary of the United Nations to inspect one of the latest and most sophisticated products of American expertise in wastewater treatment. US-AEP officials in Manila and Washington were instrumental in suggesting and managing her visit to the North River Water Pollution Control Plant, which is located along the Hudson River in New York City.

The recent clean up of the Hudson River, a dramatic change from its condition only a generation ago, suggests parallels with the Pasig River, which runs through the center of Metro Manila. First Lady Ramos spearheads a movement in Manila to clean up the Pasig River, now heavily polluted from urban runoff, industrial discharges, and the sewage from more than 70,000 squatter families living along its banks.

**US-AEP Helps Land Large Water Study.** The Bangkok Metropolitan Authority (BMA) of Thailand awarded a large feasibility study, under its BMA III program, to a partnership of Thai and U.S. firms that demonstrated a unique approach to meeting the technical and financial demands of a large infrastructure project. The U.S. companies displayed advanced trenchless technology, which, according to the Thai contractor, will offer the most effective alternative for building a wastewater collection and treatment system within the land constraints of densely urbanized Bangkok. This part of the project will develop facilities to serve the 12 million residents exposed to the polluted Chao Phraya River.

US-AEP provided training to BMA and the Thai contractor, a process that also exposed both to U.S. technology. The three U.S. companies, all located in Texas, assumed the risk of participating in distant projects and quickly formed joint ventures with other American and Thai firms to meet BMA requirements with a competitive proposal. The total project is worth $224 million, with success in this competition likely to position U.S. firms advantageously for ensuing projects, especially the half dozen or so that will emerge from BMA in the near future.

**US-AEP Infrastructure Experts Help California Firm.** With the help of US-AEP field staff, Montgomery Watson of Pasadena, CA, won a $600,000 technical assistance contract from the Asian Development Bank. The firm worked in conjunction with Macro Consultants of Thailand to prepare a plan for developing wastewater and pollution control facilities in metropolitan Bangkok.

US-AEP supported this ADB project through information and coordination services supplied by its environmental representative to the ADB in Manila and its Urban Environmental Infrastructure Representative in Bangkok. The experts in both offices worked closely together to help representatives of Macro visit the Metropolitan Water Reclamation district of Greater Chicago and attend WasteExpo '95.

# Framework: policies, constituencies, and public awareness

Environmental progress is virtually impossible without a strong public concern expressed in policies, laws, and regulations. This ethos, coupled with appropriate public programs, fosters behaviors that reward good environmental practices. The US-AEP component concerned with policies, constituencies, and public awareness helps Asian countries establish the understandings, government policies, business practices, and community behaviors that are prerequisites to — and the "framework" for — a Clean Revolution. The work of this component will eventually give issue to new criteria for investing in industry and infrastructure.

The rich complexity of social, cultural, economic, political, and environmental conditions in Asian countries compels US-AEP to tailor its framework activities to the needs of each nation. In countries where low public awareness of the hazards of pollution inhibits the development of support for needed policies and practices, US-AEP sends Asian journalists or NGO leaders to the United States to improve their environmental understanding and professional abilities. Where laws discourage investment in clean technologies, US-AEP engages American experts in effluent charges (or other market-based approaches appropriate for the Asian context) to meet with a ministry of finance or industrial trade association. Where the execution of sound laws and regulations suffers from poorly informed management, US-AEP links Asian professionals with the resources, information, and experience of the Air and Waste Management Association and the Water Environment Federation. And where the enforcement of well-crafted pollution standards is problematic, US-AEP supports partnerships for training and short-term technical assistance with the EPAs of both the federal government and the state of California.

The Framework component thus links up well with US-AEP's industrial and infrastructure activities. It draws on American and Asian experience with the complexities of environmental management and with the array of local actions that are required in each country to make environmental management more effective. By promoting partnerships and exchanges with American research institutes, government agencies, universities, NGOs, professional associations,

and other organizations. US-AEP helps Asian countries establish the overall context for the construction of a new environmental regime. Similarly, US-AEP helps Americans understand how the future of the global environment depends on sound management everywhere.

## US-AEP BUILDING THE FRAMEWORK

**States Share Environmental Expertise.** US-AEP and the Council of State Governments (CSG) are collaborating on a State Environmental Initiatives (SEI) program, a graphic and illuminating example of an effective federal-state partnership at work. Following a national competition, eight public-private partnerships, formed by 10 states and five Asian countries, were awarded grants as high as $144,000 each, in addition to a state contribution of matching funds averaging $520,000. The three-year program encourages the partnerships as a means of achieving the long-term transfer of U.S. environmental experience and technologies. The program takes advantage of the historical involvement of states in environmental management and of their detailed knowledge of local firms with technologies and techniques that can be redeployed to address Asian environmental problems.

Winners include: Louisiana-Indonesia, Indonesia Environmental Rice Project; Kentucky-India International Environmental Trade Initiative; Maryland-District of Columbia-Indonesia-Solomon Islands, a project on Transfer of Solar Photovoltaic Technology for Rural Electrification; Washington State-Indonesia, East Java Water Project; Connecticut-Rhode Island-India-Hong Kong-Taiwan-Korea, World Partners for Environmental Commerce; and Pennsylvania-Korea, Water Resources in Korea.

The New York State Department of Economic Development, another of the first eight winners, is collaborating with the Maharashtra regional government in India to reduce industrial pollution in Bombay. The new partnership will draw on New York's highly successful attack on pollution problems across a broad front.

In the winning grant between Arizona and Taiwan, the Morrison Institute for Public Policy at Arizona State University, the Arizona Department of Commerce and Department of Environmental Quality, Environmental Technology Industry Cluster, World Trade Center Arizona, University of Arizona, and Phoenix Sister Cities Commission have joined together in an unprecedented effort to build partnerships within the state and between the state and a foreign counterpart. The Arizona organizations are working closely with the Taiwanese government to identify solutions to Taiwan's most pressing industrial and environmental challenges.

**Legislators Teach and Learn How to Improve the Policy Environment.** The American legislative and regulatory regime for the environment is tough. In governing the permissible uses of the environment, it is undoubtedly the most rigorous and comprehensive in the world. And the world now values it highly.

Under a USAEP fellowship, a Washington State Senator assisted the Thai House of Representatives to review environmental policies. She quickly identified a range of feasible ways to strengthen legal procedures. Like many American leaders, she has learned from trial-and-error experience, a hard-earned wisdom that led her to emphasize pollution prevention as the most cost-effective approach to the Thai dilemma. She later organized a Parliamentarians Conference on environmental issues.

In Korea, an alumnus of a USAEP fellowship was elected mayor of Iuwang City. His campaign focused on sustainable development. The fellowship included meetings with American officials, environmental NGOs, and business leaders and attendance at the International Development Conference in Washington, DC. "I like the way Americans admit their own mistakes while learning to solve problems," the new mayor said later.

The Mongolian Minister of Justice spent time with the Environmental Law Alliance Worldwide, a fellowship that introduced him to the formulation, installation, and evaluation of American environmental legislation.

# EEP: environmental exchange program

The Environmental Exchange Program (EEP) constitutes a unique initiative within US-AEP. Yet it is also densely interwoven into the very fabric of the other components. EEP's multiple functions are managed by the Institute for International Education (IIE), the largest nonprofit educational and cultural exchange organization in the United States. EEP provides Asian professionals and relevant organizations and businesses with unique opportunities to address their most pressing environmental problems. Exchanges may flow from Asia to the United States, from the United States to Asia, or, occasionally, among various points within Asia. Wherever the location and whatever the program, participants can rely on IIE's professionalism to inform all three categories of exchange.

*Environmental Business Exchanges* provide Asian participants with opportunities to identify sources of U.S. technology, observe key facilities and technologies first hand and evaluate their suitability for Asian applications, meet face-to-face with potential partners, and confer with government officials and industry leaders. American participants may travel to Asia to evaluate the scope of environmental problems and suggest solutions that may draw upon U.S. sources for appropriate technologies and practices. These exchanges are short and intense, usually lasting less than two weeks.

*Environmental Technical Exchanges* provide Asian leaders with specific, short-term technical experience on a variety of topics, such as incineration of hazardous and industrial waste, landfill and solid waste management, and air pollution control technologies. Technical curricula are often managed by the U.S. Environmental Training Institute, an organization that received early support from US-AEP and is now an IIE subcontractor.

*Environmental Fellowships* provide senior Asian and U.S. professionals with practical work, on-site opportunities for exchanging information and expanding their understanding of environmental issues and various approaches to solving problems. Typically lasting from one to four months,

fellowships help participants develop concrete solutions to specific environmental problems. Participants usually work side by side with overseas counterparts and may be placed in businesses, nongovernmental organizations (NGOs) or government agencies.

Candidates for exchanges may include the following: Asian individuals, representatives of companies, NGOs, or government units that require help in addressing highly specific environmental dilemmas; American individuals, representatives of companies, NGOs, or government units with expertise requested by an Asian entity.

## U.S. AEP: EXCHANGING INFORMATION AND EXPERTISE

**Exchanges Build Foundations for the Long Term.** The general manager and senior technical managers of India's Thermax Ltd. wanted to meet leaders of the American environmental monitoring sector and pursue the possibility of forming joint ventures and making arrangements for representing U.S. manufacturers in India. U.S. AEP staff members in Bombay quickly recognized the potential of this request and passed it to Washington for approval and action.

Within a few weeks, EEP was able to help the Indians meet with top executives at 20 American manufacturers of monitoring equipment and attend an exhibition devoted to rural water problems. These face-to-face discussions and site visits enabled the Indian exchange participants to identify five potential business partners.

**Exchanges Help Level the Playing Field.** The Creighton Group, a minority-owned company based in Los Angeles, CA, was introduced to the Asian environmental market through a technical course on financial development. The course was sponsored by US AEP.

As a direct result of the contacts made at the US AEP event, the Los Angeles company won contracts for two small wastewater projects in Thailand. The Los Angeles firm also won a contract for a feasibility study of a larger project located at Doi Suthep, a major Buddhist Wat in Northern Thailand. Feasibility studies often lead to downstream contracts.

**Markets for Advanced Technologies Advance with Education.** An employee of Hong Kong's Department of Environmental Protection wanted to study control and enforcement mechanisms for industrial and indoor air pollution. US AEP was there to help.

An EEP fellowship enabled this employee to evaluate the use of vapor recovery and destruction units that reduce toxic emissions and volatile organics, visit factories and end-users, and consult with U.S. government agencies and laboratories.

# Environmental Contexts: biological diversity and energy

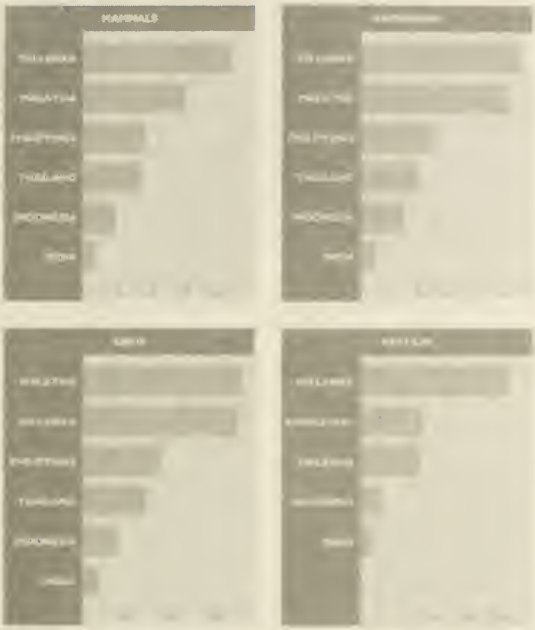
In August, US-AEP began to concentrate its focus on industrial efficiencies and the infrastructure of the urban environment, particularly within Asia's megacities. As a result, US-AEP while continuing its funding is gradually shifting many management responsibilities for biodiversity and energy to the Environment Center of USAID's Global Bureau. These activities include programs for the conservation of fisheries and ocean resources and the generation, transmission, and distribution of power and renewable energy. The Biodiversity Conservation Network (BCN) remains under the US-AEP rubric, but the program is now operationally managed by the Global Bureau.

## US-AEP PROTECTING DIVERSITY AND SAVING ENERGY

**Helping Biodiversity Earn Its Own Way.** The International Institute of Rural Reconstruction is using a BCN grant funded by US-AEP to develop a community-based enterprise for collecting and processing medicinal plants. This venture helps residents of the newly created Mount Palaypalay National Park in the Philippines exploit the new reserve in sustainable ways. The Institute is also exploring the potential for local residents to benefit from ecotourism and related activities.

The core enterprise focuses initially on three medicinal plants that the Department of Health's (DOH) Traditional Medicine Unit has approved and is promoting throughout the country. The plants are collected and then either sold as raw materials or processed into syrups and ointments for sale to the DOH, which has indicated it will purchase all products the site can supply. The possibility of marketing the plants to up-scale markets for natural foods and health products in Manila is being explored.

**Sustainable Enterprises Conserve Biodiversity in Indian Sanctuary.** The Biligiri Rangan Hills Wildlife Sanctuary, located at the confluence of the Western and Eastern Ghats in India, harbors

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extraordinarily high floral and faunal diversity. Overharvesting of the forest products, however, increasingly threatens the sustainability of the biodiversity.

To address the problem, the local NGO, Vivekananda Girijana Kalyana Kendra (VGKK), a strong advocate for the sanctuary's indigenous Soligas communities, is promoting sustainable management of forest products in the sanctuary. A BCN grant through the University of Massachusetts Foundation enables VGKK to establish several new enterprises — processing amla fruits, herbs and wild honey, and producing broom sticks and herbal shampoos in sachet containers for sale to hotels. The Tata Energy Research Institute is also providing technical assistance.

# Financial Statements

The United States-Asia Environmental Partnership (US-AEP) was initiated under a Presidential Determination, dated December 30, 1991, as a 10-year U.S. government effort, commencing January 4, 1992, to mobilize the intellectual and financial resources of the American public, private, and nongovernmental sectors to assist the developing and newly industrializing nations and territories of Asia and the Pacific to deal with their environmental problems and, thereby, enhance sustainable development with the maximum transfer of U.S. experience, technology, and practice. As noted herein, this focus has been sharpened by the U.S. Agency for International Development (USAID) into a single Strategic Objective (SO): Promote an Asian Clean Revolution.

USAID, the lead U.S. government agency in US-AEP originally authorized core funding for US-AEP amounting to $100 million under USAID Project Number 499-0015, dated May 25, 1992. In this project format, the program presently has an assistance completion date (PACD) of December 31, 1999. In 1995, the Environmental Improvement Project (EIP), between USAID and the six original constituent countries of the Association of South East Asian Nations (ASEAN) which was authorized under USAID project number 399-0360 on March 20, 1992 at a life of project (LOP) level of $17,500,000, was merged into US-AEP. During 1995, EIP was operated as an element of US-AEP for ASEAN purposes but is otherwise fully integrated into US-AEP operating structure.

In June 1995, the Bureau for Asia/Near East (ANE) of USAID formally reviewed and approved a new strategy for US-AEP which is described elsewhere in this annual report. Under the new, re-engineered principles of USAID, programs such as US-AEP no longer have fixed LOP amounts. Rather, funding is authorized on a yearly basis, depending on achievements of results specified within SOs. US-AEP's future funding will depend upon its continuing a high level of performance.

The actual obligation of funds under US-AEP has been as follows:

| | |
|---|---|
| US Fiscal Year 1992 | $11,545,000 |
| US Fiscal Year 1993 | $25,159,000 |
| US Fiscal Year 1994 | $16,398,000 |
| US Fiscal Year 1995 | $22,764,615 |
| Subtotal | $75,966,615 |
| Anticipated US Fiscal Year 1996 | $18,300,000 |
| **Total** | **$94,266,615** |

One financial objective of US-AEP is to leverage these core funds on the basis of more than a dollar of other investments for every dollar of USAID-furnished investment. Thus, over the life of the program, it is expected that significant amounts of cash and in-kind contributions will be made to the program by partner organizations and individuals from the U.S. and Asian public, private, and nongovernmental sectors.

Moreover, it is anticipated that these investments will bring about technology transfers from the United States to Asian and Pacific countries through sales, joint ventures, and licensing agreements amounting to as much as $5 billion during the 10-year life of the partnership.

**THE FOLLOWING STATEMENTS REFLECT:**

**Table A:** The amounts of US-AEP actual investments (i.e., the expenditure of USAID core financing) against specific US-AEP program components (i.e., the major management units of US-AEP) and activities together with companion partnership investments, where possible (i.e., cash and in-kind expenditures by U.S. and Asian entities) for those components and activities for the period from program inception (i.e., the date actual field activities of US-AEP commenced) to December 31, 1995, a period of three and one-quarter years. These numbers are restated from the 1994 Annual Report to conform to

US-AEP's new Strategic Objective and its management units.

**Table B:** These same US-AEP actual investments and partnership investments arrayed against the countries in which, or for which, they were made, together with the total current value (in US$) of all technology transfers to those countries from the United States. These amounts were supplied by reliable sources in companies that effected the transfers or intermediate organizations (such as trade associations or state development agencies, that told US-AEP that the transfers resulted, substantially or meaningfully, from US-AEP actions or programs. Under an internal USAID determination dated August 29, 1994, US-AEP agreed to restrict the amount of US-AEP investments in "other USAID-eligible countries" (i.e., USAID nonpresence countries) to a maximum of $20 million over the course of the US-AEP original $100 million program. For those countries that were "USAID-assisted countries" (i.e., USAID presence countries) and then became USAID-eligible countries, the limitation applies only to investments made after the date of change.

Both tables include the amount of support provided through the ASEAN Environmental Improvement Project (EIP), as described above.

The notes to this financial information are an integral part of that information.

## Statement A: US-AEP and Partnership Investments by Program Element

*From Program Inception [illegible] October [illegible] Statement [illegible] on the basis of AEP [illegible]*

| Program Component and Activity | US AEP Actual Investments | Partnership Investments | Total Investment |
|---|---|---|---|
| **A. Clean Technology Environmental Management** | | | |
| Asian Office of Technology Cooperation Activity | [illegible] | [illegible] | [illegible] |
| (U.S. Department of Commerce USAEP [illegible]) | | | |
| Environmental Technology Network for Asia (ENTA) | [illegible] | [illegible] | [illegible] |
| (USAID Center for Trade and Investment Services) | | | |
| Environmental Energy Technology Fund Activity | [illegible] | [illegible] | [illegible] |
| (National Association of State Development Agencies) | | | |
| Environmental Trade Finance Information Activity | [illegible] | [illegible] | [illegible] |
| (Bankers Association for Foreign Trade) | | | |
| ASEAN Environmental Improvement Project | [illegible] | [illegible] | [illegible] |
| (Louis Berger International, Inc.) | | | |
| ***Subtotal*** | [illegible] | [illegible] | [illegible] |
| **B. Environmental Infrastructure** | | | |
| Infrastructure Finance Advisory Services Activity | [illegible] | [illegible] | [illegible] |
| (A&M Engineering & Consulting Corporation) | | | |
| Urban Infrastructure Representation Activity | [illegible] | [illegible] | [illegible] |
| (USAID Regional Housing and Urban Development Office) | | | |
| Urban Infrastructure Representation Support Activity | [illegible] | [illegible] | [illegible] |
| (American Consulting Engineers Council) | | | |
| Energy Development Activity | [illegible] | [illegible] | [illegible] |
| (US Department of Energy) | | | |
| Trade Development Program Activity | [illegible] | [illegible] | [illegible] |
| (US Trade Development Agency) | | | |
| Environmental Energy Development Initiative Activity | [illegible] | [illegible] | [illegible] |
| (OPIC) | | | |
| ***Subtotal*** | [illegible] | [illegible] | [illegible] |
| **C. Framework** | | | |
| Environmental Activity Assessment | [illegible] | [illegible] | [illegible] |
| (US Environmental Protection Agency) | | | |
| National Environmental Assessment Capacity | [illegible] | [illegible] | [illegible] |
| (Air & Water Management Association) | | | |
| (Water Environment Federation) | | | |
| Sector Environmental Investment Activity | [illegible] | [illegible] | [illegible] |
| (Coopers & Lybrand International) | | | |
| New Environmental Organizations Resource Exchange | [illegible] | [illegible] | [illegible] |
| (Pacific Institute) | | | |
| ***Subtotal*** | [illegible] | [illegible] | [illegible] |
| **D. Environmental Exchange Program (and predecessors)** | | | |
| Environmental Exchange Fellowship | [illegible] | [illegible] | [illegible] |
| (Chemical Manufacturers Association) | | | |
| Environmental Exchange Activity | [illegible] | [illegible] | [illegible] |
| (The Asia Foundation) | | | |
| Environmental Exchange Program Activity | [illegible] | [illegible] | [illegible] |
| (World Environment Center) | | | |
| Short Term Technical Training Activity | [illegible] | [illegible] | [illegible] |
| (Environmental Training Consortium) | | | |
| ***Subtotal*** | [illegible] | [illegible] | [illegible] |
| ***Subtotal of A thru D*** | [illegible] | [illegible] | [illegible] |
| **E. Biodiversity and Natural Resources** (Special Initiative) | | | |
| Biodiversity and Natural Resources Activity | [illegible] | [illegible] | [illegible] |
| (World Resources Institute) | | | |
| (WWF) | [illegible] | [illegible] | [illegible] |
| (National Wildlife Federation) | | | |
| ***Subtotal*** | [illegible] | [illegible] | [illegible] |
| **F. Other Activities** | | | |
| USAID Management Assistance Activity | [illegible] | [illegible] | [illegible] |
| Planning Programming Administration | [illegible] | [illegible] | [illegible] |
| (Data Quality Management Strategy Planning) | | | |
| ***Subtotal*** | [illegible] | [illegible] | [illegible] |
| ***Subtotal of E and F*** | [illegible] | [illegible] | [illegible] |
| **US AEP GRAND TOTAL** | 58,533,005 | 111,439,479 | 169,972,484 |

# Statement B: US-AEP Investment Returns by Region

*From Program Inception (October 1, 1992 or March 20, 1993 in the case of ASEAN EIP) to December 31, 1995*

| Category | US-AEP (4) Actual Investments | Partnership (5) Investments | Total Investments | Total Current Value All (6) Technology Transfers |
|---|---|---|---|---|
| USAID-Assisted Countries (7) | 28,266,205 | 96,846,839 | 125,113,044 | 258,610,613 |
| Other USAID Eligible Countries (8) | 10,375,293 | 9,622,587 | 19,995,880 | 368,805,138 |
| Regional (9) | 193,960 | 2,629,371 | 2,823,331 | [illegible] (10) |
| **OPERATIONAL SUBTOTAL** | **38,833,458** | **109,098,797** | **147,932,255** | **805,261,749** |
| Planning, Program Integration and TQM | [illegible] | [illegible] | 12,893,840 | |
| **TOTAL** | **50,256,021** | **110,570,074** | **160,826,095** | **805,261,749** |
| ASEAN Environmental Improvement Project | 8,276,984 | 869,405 | [illegible] | [illegible] |
| **GRAND TOTAL** | **58,533,005** | **111,439,479** | **169,972,484** | **805,261,749** |

**NOTES TO FINANCIAL STATEMENTS:**

**General:**

The figures contained herein, with the exception of those relating to official authorizations and obligations of USAID, are drawn from the operational files of US-AEP, its partners, and the beneficiaries of the program. The amounts indicated against individual countries represent figures resulting from the "demand-driven" activities of US-AEP. They do not represent country allocations, entitlements or other pre-programmed levels that would represent funding arrangements not part of the US-AEP program. The figures are not official numbers drawn from the accounting records of the United States Government. Nevertheless, the staff of the secretariat of US-AEP believe them to be accurate and to represent fairly the operations and performance of the program.

**Specific:**

N/A: Not applicable

1. IFAS activity by K&M Engineering is a commercial contract with no direct partnership "leverage."
2. Investments required for providing contracted operational planning, programming and administration of the US-AEP program, largely costs of the Technical Support Services Contract with Tropical Research and Development, Inc. (TR&D) for the period January 1, 1995, to May 4, 1995, and a contract with International Resources Group (IRG) for the balance of calendar year 1995. Includes certain communications, public education, outreach, and partnering activities undertaken under grant or contract from TR&D or IRG. Also includes investments in program Total Quality Management, largely costs of the Quality Assurance activities of Management Systems International; and for strategic planning, largely costs of activities with Winrock International and the Tata Energy Research Institute (TERI).
3. Estimated value of partners' counterpart investments to US-AEP efforts in communications, public education, and outreach.
4. Actual expenditures by US-AEP and budget transfers to USAID missions for work that integrates missions' programs with US-AEP activities. Includes grants awarded by the Biodiversity Conservation Network and the National Association of State Development Agencies technology transfer grants, whether or not funds were disbursed.
5. Includes cash and in-kind or matching contributions, or attributions, reported by all partners to US-AEP. Includes $75 million of Housing Investment Guaranty (HIG) funds acquired by the Government of the Republic of Indonesia from U.S. commercial sources, pursuant to a guarantee provided by the U.S. government. This HIG program was entered into between the U.S. Government and the Government of Indonesia as a result of, among other reasons, the agreement of US-AEP to provide expert engineering services in the provision of Urban Infrastructure. While these funds have been acquired by Indonesia, they technically may not yet have been expended.
6. Represents value reported to, and confirmed by, US-AEP from U.S. companies or intermediaries (such as trade associations or state development agencies) of all sales of goods and services, and contracts for goods and services, systems, and projects, plus estimated value, to the U.S. partner, of all joint ventures and licensing agreements to U.S. firms during the first five years of such agreements.
7. Bangladesh, India, Indonesia, Mongolia, Nepal, Philippines, and Sri Lanka were USAID-assisted through December 31, 1995; South Pacific was USAID-assisted through September 30, 1994, and Thailand was USAID-assisted through September 30, 1995. In USG Fiscal Year 1995 and beyond, incremental amounts for South Pacific and Thailand are recorded as "Other USAID Eligible."
8. These are countries eligible for US-AEP assistance under the Foreign Assistance Act (Hong Kong, Korea, Malaysia, Singapore, Taiwan, the South Pacific after October 1, 1994, and Thailand after October 1, 1995) but without USAID mission programs.
9. Regional investments not subdividable.
10. Not otherwise identified by the U.S. firms reporting values of transfers to US-AEP.
11. This amount represents an estimate by EIP staff of the value of technology transfers. US-AEP is in the process of developing a better system to track results for EIP.

**US AEP ACTS WITH GUIDANCE FROM THE TRADE PROMOTION COORDINATING COMMITTEE**

Department of State (DOS)
Department of the Treasury
Department of Defense (DOD)
Department of Interior (DOI)
Department of Agriculture (USDA)
Department of Commerce (DOC)
Department of Labor (DOL)
Department of Transportation (DOT)
Department of Energy (DOE)
Office of Management and Budget (OMB)
Office of the US Trade Representative (USTR)
Council of Economic Advisers
Environmental Protection Agency (EPA)
Small Business Administration (SBA)
Export Import Bank of the United States (EXIM)
Overseas Private Investment Corporation (OPIC)
United States Agency for International Development (USAID)
United States Trade and Development Agency (TDA)
United States Information Agency (USIA)

**ACTIVITY IMPLEMENTING ORGANIZATIONS**

Air and Waste Management Association (AWMA)
American Consulting Engineers Council (ACEC)
The Asia Foundation (TAF)
Center for Trade and Investment Services (CTIS) (USAID)
Council of State Governments (CSG)
Global Bureau, Office of Economic and Urban Development (GAUD)
Institute of International Education (IIE)
International Resources Group (IRG)
K&M Engineering and Consulting Corporation
Louis Berger International, Inc.
National Association of State Development Agencies (NASDA)
The Nature Conservancy (TNC)
Overseas Private Investment Corporation (OPIC)
United States Environmental Export Council
United States Environmental Training Institute (USETI)
United States Fish and Wildlife Service (DOI)
United States & Foreign Commercial Service (USFCS) (DOC)
Water Environment Federation (WEF)
World Resources Institute (WRI)
World Wildlife Fund (USA) (WWF)

**FOR MORE INFORMATION, PLEASE CONTACT:**

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**515 22ND STREET, NW, SA 2 ROOM 100**

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**FAX: 202-663-2760**

**WORLD WIDE WEB: http://www.usaep.org**

ATTACHMENT B

NATIONAL ASSOCIATION OF STATE DEVELOPMENT AGENCIES PROJECTS

1. Montana/GeoResearch Mapping Technologies Project in South and Southeast Asia

2. Utah/Terra Tek Project in Malaysia and the Philippines

3. Mid-America World Trade Center Project in the Philippines

4. Alaska Energy Infrastructure Development Assistance in Mongolia

5. Kenan Institute of Private Enterprise Project in Indonesia and Thailand

6. Cal EPA in Thailand

7. Florida Division of International Trade and Development in Taiwan and Korea

8. Minnesota Trade Office/Bio-Pak Super Absorbent in the Philippines

9. Lafayette(CA) Chamber of Commerce/Prometrika in Thailand

10. Washington State Department of Commerce/Unisyn Biowaste Technology in Thailand and Taiwan

11. Connecticut Department of Economic Development/Pollution Control Exports USA in Hong Kong and South Korea

12. Oregon State/Oregon Environmental Technology Association in India

13. Alliance for Responsible CFC Policy in Indonesia, Hong Kong and Taiwan

14. International Institute for Energy Conservation (IIEC) in Thailand

15. World Trade Center of Denver in Hong Kong, Korea, Taiwan, Thailand & Nepal

16. Pacific Basin Economic Council (PBEC) in Taiwan

17. U.S.-Philippine Business Committee in the Philippines

18. World Trade Center Pittsburgh in Korea

19. Washington Department of Trade & Economic Development in association with Applied Environmental Technologies & the Pacific Rim Institute in India

20. Maryland Trade Division in Indonesia

21. Bangladesh U.S. Business Council in Bangladesh

22. Massport and the New England Business Council (EBC) in Thailand, Malaysia and Indonesia

23. Maryland/Washington DC Export Council in Indonesia, Singapore, and Malaysia

24. Washington State Department of Trade and Economic Development and Resource Management, Inc. in Malaysia and Indonesia

25. Idaho Department of Commerce and Environmental Research and Development, Inc. in Taiwan, Indonesia and Singapore

26. Environmental Technology Export Council/Wahlco Environmental Systems in India

27. The Los Angeles Local Development Corporation and the California Energy Commission, the City of Los Angeles and the State of California Economic Commission in India

28. The Kansas Department of Commerce and Housing and Innovative Material Systems, Inc. in Thailand

29. The Oregon Economic Development Department and Global Resources Institute in Nepal

30. The Alabama District Export Council in Southeast Asia

31. Water and Wastewater Equipment Manufacturers Association (WWEMA) and Kent Meters, Inc. in Thailand, Indonesia and the Philippines

32. The State of Colorado and Geothermal Enterprises in the Philippines

33. Environmental Technology Export Council and the American Environmental Technology Consortium in Asia in Malaysia

34. DeKalb County Chamber of Commerce and G&G Sanitation in Thailand and Taiwan

38. Colorado International Trade Office/MDI Pinnacle in Thailand and Hong Kong

39. Environmental Technology Export Council/Wahlco Environmental Systems in India

40. University of Binghamton/Octagon International in Taiwan

41. Laramie, Wyoming Economic Development Corporation/IN-SITU, Indonesia, Malaysia, and Thailand

42. The Water and Wastewater Equipment Manufacturers Association, Inc./Hycor Corporation in Thailand, Malaysia and Indonesia

43. State of Connecticut/Pollution Control Exports USA in India

44. State of Florida in Indonesia, Malaysia and the Philippines

45. Texas Department of Commerce/Atlantes Chemical Systems, Inc. in Thailand

46. Michigan Export Development Authority/Waste Technology McCormick Philippines in the Philippines

47. Texas Department of Commerce, the Environmental Trade Group, and Biogenesis Environmental Services, Inc. in Singapore

48. KIRPC of Indiana/Galbreath, Inc., in the Philippines

49. Kansas Department of Commerce and Housing/St. Andrews Corporation in Malaysia, Indonesia and Thailand

50. The Mid-South Trade Council in Singapore, Malaysia, Indonesia and Taiwan

51. The Environmental Technology Export Council, Purus, Inc. and Catalyst International Corporation in the Philippines

52. The Colorado International Trade Office/Hach Company in Thailand, Indonesia and India

53. Texas Department of Commerce/Oppenheimer Environmental Co. Inc. in Malaysia

54. California Commission for Economic Development in India

55. The Georgia Department of Industry, Trade and Tourism in the Philippines, Thailand, Indonesia, Malaysia, and Taiwan

56. The World Trade Center Denver/Shaalnasheel, Inc., India

57. Idaho Department of Commerce in Taiwan and Korea

58. World Trade Center Arizona/Water Science Technologies, Inc. in the Philippines, Singapore, Malaysia and Taiwan

59. Texas Engineering Extension Service at Texas A&M University/ENTECH, Inc. in India

60. State of Montana/Positive Systems in Thailand and Taiwan

61. State of Michigan/JWI, Inc. in Malaysia, Indonesia and Thailand

62. WWEMA/Dorr-Oliver Incorporated in Taiwan

63. Wisconsin Department of Development in Taiwan, Malaysia and Singapore

64. The Pacific Basin Economic Council in Malaysia

65. The Port Authority of New York and New Jersey/Epner Technologies, Inc. in Thailand, Malaysia, Indonesia, Singapore, India and the Philippines

66. The Minnesota Trade Office in Indonesia

67. World Trade Center Chicago and ICG, Inc. in Korea

68. Cal EPA/EER in South Korea, Taiwan and Singapore

69. Vista Community College Center for International Trade Development/FloWind Corporation in India

70. Alaska District Export Council/Environmental Services Ltd. in India

71. The State of Texas in Thailand

72. State of Colorado/Pacific Western Technologies, Ltd. in Thailand, Hong Kong and Korea

73. State of Missouri/BHA Group in India, Indonesia, Malaysia and the Philippines

74. WTC Arizona/Meta International and ECOTECH in the Philippines

75. The U.S.-Mongolia Business Council/Bioferm in Mongolia

76. WWEMA/A.O. Smith Harvestore Products, Inc. in Indonesia, Korea, Malaysia, Singapore and Taiwan

77. World Trade Center Los Angeles/EHS2, Inc. in Indonesia

78. Valve Manufacturers Association of America in Indonesia, Malaysia and Thailand

79. The Louisiana Economic Development Corporation/Agrilectric Power Partners, Inc. in Malaysia, Indonesia, the Philippines, Thailand, and India

80. City of Tucson International Programs Division/Stripping Technologies, Inc. in Indonesia and Malaysia

81. The World Trade Center Pittsburg in South Korea and Hong Kong

82. State of Nevada Commission on Economic Development/Vector Environmental Technologies, Inc. in Sri Lanka

83. University of Massachusetts, Center for Industrial Competitiveness (CIC)/Solar Resources to the Philippines

84. Ohio Dept. of Development/Dodson-Lindblom International, Inc. (DLI) in India

85. Washington State Department of Community, Trade and Economic Development/GeoTrends, Inc.

86. Maryland International Division/EA Engineering, Science and Technology/Energy Technologies Group and ChapInt East in the Philippines

87. State of Missouri International Trade and Development Office (ITDO)/Central States Environmental Trade Mission to Philippines, Thailand and Malaysia

88. Wisconsin Department of Development/Beckart Environmental, Inc. in Indonesia

89. Georgia Department of Industry, Trade & Tourism/Accura Analytical in India

90. Intelligent Buildings Institute in Malaysia

91. Minnesota Trade Office/Cortec Corporation in Indonesia

92. The Business Council for a Sustainable Energy Future/Engelhard/ICC in Taiwan and Korea

93. U.S. Export Council for Renewable Energy/International Applied Engineering to Indonesia

94. Colorado International Trade Office/Industrial Solar Technology Corporation

95. Utah Department of Community and Economic Development/EnviroSearch International in Malaysia, Thailand, Indonesia and the Philippines

96. Cal EPA/Aquatics Unlimited in Indonesia, Malaysia, Singapore and Brunei

97. Indo-American Chamber of Commerce/Al T.Hays in India

98. Louisiana Economic Development Corporation/Owens Manufacturing in India

99. Grass Valley-Nevada County Chamber of Commerce/Vector Engineering in Malaysia and Thailand

100. Oklahoma Department of Commerce/Delta D Technologies in Southeast Asia

101. Cal EPA/Resource Conservation Management in the Philippines, Taiwan and Korea

102. The State of Colorado in Thailand and the Philippines

103. Cal EPA/ZAP Power Systems in Malaysia, Thailand and Singapore

104. US-Mongolia Business Council/Ted Lang & Associates-Equinox International in Mongolia

105. US Export Council for Renewable Energy (US ECRE) in India

106. Maine Department of Economic and Community Development/JBF Scientific in Thailand, Malaysia, Singapore, and the Philippines

107. Cal EPA, Department of Toxic Substances Control in Thailand and Indonesia

108. North Carolina Department of Commerce/United Emission Catalyst in Hong Kong, Indonesia, Thailand, and Malaysia

109. The Rhode Island Export Assistance Center in Indonesia, Malaysia, and Thailand

110. Illinois Department of Community Affairs/P&P International in India

111. Missouri Department of Economic Development/Woodward & Clyde International in Korea

112. Central Carolina Economic Development Alliance/Alpha Beta Gamma Technologies (ABG) in India

113. Cal EPA/Solstor Power & Light in India

114. The Downriver Community Conference/Pump Engineering, Inc. in India

115. Virginia Department of Economic Development/Industrial Wastewater Treatment Equipment Corporation in Singapore, Malaysia and the Philippines

116. Cal EPA Department of Toxic Substances Control/Atlantic-Pacific Technologies, Inc. in Brunei, Indonesia, and Malaysia

117. The Environmental Export Council (EEC)/Thermatrix, Inc. in Korea and Taiwan

118. Wisconsin Department of Agriculture, Trade, and Consumer Protection/International Dairy Development Service (IDDS) in Indonesia

119. The Florida Department of Commerce in Thailand and Indonesia

120. Washington District Export Council/Aquacare Environment, Inc. in Micronesia, Indonesia, and Malaysia

121. North Carolina Technological Development Authority, Inc. (NCDTA)/Austram, Inc. in the Philippines

122. Cal EPA Department of Toxic Substances Control/Advanced Bio Tech, Inc. (ABI) in Indonesia, Malaysia, Thailand, and the Philippines

123. Pennsylvania Department of Commerce Office of International Trade/Pennsylvania Coke Technology, Inc. (PACTI) in India

124. Cal EPA/Pollution Prevention International (PPI) in India

125. Export Managers Association of California (EMAC) in India

126. US Export Council for Renewable Energy (US/ECRE) in Indonesia

127. North Carolina Department of Commerce in Singapore and Thailand

128. Minnesota Trade Office in India

129. World Trade Center Denver in the Philippines

130. Applied Environmental Technologies/Environ-Tech Group in India

131. Tennessee Export Center/Environmental Systems Corporation in Taiwan, Hong Kong and Malaysia

132. Cal EPA, Department of Toxic Substances Control/ACSI Ultrapure Equipment Sciences & Head Start International in the Philippines

133. Maryland International Trade Division/Aqua-Flo, Inc. in Indonesia and Malaysia

134. New Mexico Department of Economic Development/STAR Associates in India

135. Cal EPA, Department of Toxic Substances Control/International Marine Supply & Service Company in Malaysia

136. Kentucky Cabinet for Economic Development/RNK Environmental, Inc. in Nepal

137. Washington Department of Community, Trade and Economic Development/H&H Ecosystems in Indonesia and Thailand

138. Environmental Export Council/Indo-US International in India

139. Pennsylvania Department of Commerce in Indonesia, Thailand and Malaysia

140. Environmental Export Council/Martech International in Bangladesh

141. Michigan International Trade Authority/Spalding, Dedecker & Associates in India

142. Vermont Agency of Development and Community Affairs/US Recycling in India

143. Decatur, Illinois Chamber of Commerce/King Dry Fragrance in Indonesia

144. EEC/International Environmental Federation in Nepal

145. San Diego World Trade Center Association/White Tiger International in India, Malaysia, the Philippines and Thailand

146. Cal EPA, Department of Toxic Substances Control/Silk Roads Ltd. in Thailand, Indonesia and the Philippines

ROLE OF THE NGOs IN ASIA

Mr. Berman: With the OMB and Congressionally-imposed cuts on USAID's program resulting in mission closings throughout Asia, what role can NGOs such as the Asia Foundation play in maintaining American influence in the region?

Answer: NGOs are key partners with USAID. We work with both U.S. and indigenous NGOs to support our development objectives throughout the world, and we assist local NGOs to develop their own capacity. In countries where USAID no longer maintains a presence (for example, in Pakistan and Mongolia), NGOs play an important role in furthering U.S. development objectives and showing the flag. But the size and complexity of the programs they can undertake are limited by U.S. Government accountability requirements. NGOs must have the capability to administer USAID-funded programs in accordance with these requirements, and USAID is still responsible for assuring that these requirements are met -- a job made more difficult when this must be done from afar.

The Asia Foundation (TAF), one of the major NGO partners of USAID in South Asia and East Asia, supports democracy and governance programs as well as activities in family planning, maternal health and child survival. TAF makes over 1,500 grants each year to Government agencies and non-governmental organizations in 37 Asian and Pacific Island Nations. Given its four decades of

experience in Asia, TAF has proven to be an indispensable resource for USAID's programs.

In Mongolia, through USAID grants since 1991, TAF has played a critical role as the first U.S. organization to actively promote Mongolia's transition to democracy and a market economy. TAF provides direct assistance in representative government, judicial and legal reform, and the development of civil societies. As a result of the recent parliamentary elections in Mongolia where the Democratic Coalition Party increased their position from 5 to 50, TAF has been asked by the parliament to assist these new members through their transition period as new parliamentarians. With the departure of the USAID Representative in Mongolia in September, USAID will rely on TAF to continue the momentum attained thus far in the democratization process in Mongolia.

In Pakistan, in the absence of a USAID mission or any U.S. direct hire employees stationed in Islamabad, TAF and Aga Khan Foundation serve to implement the Pakistan NGO (Non-Governmental Organization) Initiative. This Initiative is aimed at developing local NGO capacities in the areas of girls education, maternal child health and family planning.

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NGO (Non-Governmental Organization) Initiative.

Mr. Berman: Are there any countries or program areas where you would like to see NGOs, such as the Asia Foundation, more active?

Answer: Non-governmental organizations (NGOs) are key partners for USAID throughout Asia. In countries where USAID does not have a mission (such as Pakistan, Vietnam, and Laos), NGOs are the sole implementing partner for USAID. We are committed to strengthening our work with NGOs through the New Partnerships Initiative. With declining funds for Asia in recent years, however, the opportunities to increase NGO activities with organizations such as The Asia Foundation are limited.

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